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1966

BRIEF TO
THE ROYAL COMMISSION ON TAXATION

Submitted by


THE VANCOUVER BOARD OF TRADE

at

VANCOUVER, BRITISH COLUMBIA

on

AUGUST 15, 1963.



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PREFACE

A revaluation of the principles and of the laws governing federal taxation in Canada leading to the formulation of more economically progressive policies of taxation cannot be undertaken without the assistance of experts and specialists in a number of relevant disciplines.

The aim of the Vancouver Board of Trade in submitting this brief, therefore, is to afford the views and the recommendations of the Vancouver business community - propounded on the basis of practical business experience - to be considered with the views and findings of others in the ultimate formulation of a socially equitable and economically progressive taxation structure in Canada.

THE VANCOUVER BOARD OF TRADE WAS ESTABLISHED IN 1887
AND HAS A TOTAL MEMBERSHIP OF 2,600 CONSISTING OF OVER
1,200 CORPORATIONS AND 1,400 INDIVIDUAL MEMBERS
REPRESENTING EVERY FACET OF BUSINESS AND PROFESSIONAL
ACTIVITY IN THE GREATER VANCOUVER AREA.

THE OBJECTIVES OF THE VANCOUVER BOARD OF TRADE ARE TO
PROMOTE AND IMPROVE ECONOMIC, CIVIC AND SOCIAL WELFARE
IN THE CITY OF VANCOUVER AND THE PROVINCE OF BRITISH
COLUMBIA AND, IN PARTICULAR, TO FOSTER AND DEVELOP THE
EXPANSION OF TRADE AND COMMERCE IN THE AREA.

THE OFFICERS OF THE VANCOUVER BOARD OF TRADE ARE:

| | | |
|--------------------------|---|-----------------|
| MR. W. M. ANDERSON, C.A. | - | PRESIDENT |
| MR. EDWARD BENSON | - | VICE-PRESIDENT |
| MR. RALPH CUNNINGHAM | - | SECRETARY |
| MR. WINFIELD S. PIPES | - | TREASURER |
| MR. REG. T. ROSE | - | GENERAL MANAGER |

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1. INTRODUCTION

1.1 The Council of the Vancouver Board of Trade appointed the National Tax Policy Committee to prepare and submit, on behalf of its members, a brief to the Royal Commission on Taxation. The brief was approved for presentation at a meeting of the Council on July 11th, 1963.

1.2 The National Tax Policy Committee was constituted in December of 1962 and divided into an Advisory Sub-Committee and a Research Sub-Committee under the Chairmanship of Jacques Barbeau, LL.M.

1.3 The members of the Advisory Sub-Committee are:

Mr. Ralph D. Baker - President & Managing Director,
Standard Oil Co. of British Columbia Limited
Mr. Frank M. Brown - Financial Advisor
Mr. J. M. Buchanan - Chairman and President,
British Columbia Packers Limited
Mr. C. G. Chambers - Treasurer, MacMillan, Bloedel &
Powell River Limited
Mr. E. T. Clendenning - Managing Director, Empire
Shipping Company Limited
Mr. J. W. Hudson, C.A. - Executive Vice-President,
Burrard Dry Dock Company Limited
Mr. W. D. Kelly - Assistant General Manager, The
Toronto-Dominion Bank
Mr. D. J. Kelsey, C.A. - Partner, Helliwell,
MacLachlan & Co.
Dean G. Neil Perry - Faculty of Commerce and Business
Administration, University of British Columbia
Dr. A. D. Scott - Department of Economics and
Political Science, University of British
Columbia
Mr. P. P. Saunders - President, Laurentide Financial
Corporation Ltd.
The Honourable James Sinclair - President, Lafarge
Cement of North America Ltd.
Mr. W. G. Skinner - Vice-President and Secretary,
Woodward Stores Limited
Mr. Wm. E. Thomson - President, Pemberton Securities
Limited

1.4 The members of the Research Sub-Committee are:

Mr. R. T. Bodie, C.A. - Secretary-Treasurer, Anglo
Canadian Shipping Company Limited
Mr. H. A. Dunlop, C.A. - Treasurer, The British
Columbia Sugar Refining Company Limited
Mr. G. M. Ferguson - Vice-President and Treasurer,
British Columbia Packers Limited

Mr. G. M. Morris - Assistant General Manager
Vancouver Board of Trade
Mr. D. H. Parkinson, C.A. - Price Waterhouse & Co.
Mr. R. H. Price, C.A. - Office Manager, Placer
Development, Limited
Mr. D. C. Selman, C.A. - Manager, Peat, Marwick,
Mitchell & Co.
Mr. F. G. Weibel - Vice-President, Finance, Lafarge
Cement of North America Ltd.

1.5 The terms of reference of the National Tax Policy
Committee were:

- To obtain and present the view of the Vancouver
business community on certain areas of income
tax policy affecting business enterprise.
- On the basis of the experience of its members,
to point out and comment on certain short-
comings in the federal tax laws affecting
business enterprise without necessarily offer-
ing remedial suggestions.
- To make recommendations in accord with the
terms of reference of the Royal Commission
and in accord with the objectives of the
Vancouver Board of Trade.

1.6 The National Tax Policy Committee, in accordance
with its terms of reference, decided to conduct -
in addition to the preparation of this substantive
submission - a tax policy survey amongst its
corporate members as a special research project.
To this end, the Tax Policy Questionnaire, marked
Exhibit "A" to this brief, was prepared and
submitted to 1,200 corporate members of the
Vancouver Board of Trade.

1.7 The brief is divided into two parts. Part II
contains submissions on certain matters of
taxation affecting business enterprise. Part III
summarizes the findings of the corporate tax
questionnaire.

PART II

SUBMISSIONS

IN THIS PART ARE CONTAINED RECOMMENDATIONS ON
MATTERS OF TAXATION ALL OF WHICH ARE RESPECTFULLY
SUBMITTED:

2. ECONOMIC

2.1 TAXATION AND GOVERNMENT EXPENDITURES

The terms of reference of the Royal Commission preclude any examination of governmental expenditure, commitments and programs, which are being financed by taxation.

The determination of whether the present degree of governmental expenditure - and indeed potential increases and expenditures in the future - may or may not be in the economic interests of Canadians generally cannot therefore be considered in a re-evaluation of the Canadian tax structure. Accordingly, the extent to which a reduction in governmental expenditures may be both socially and economically warranted to permit a reduction in taxation appears, unfortunately - in the views of the Vancouver Board of Trade - to be outside of the scope of inquiry.

Nonetheless, the Vancouver Board of Trade considers that too often governmental expenditure programs have been undertaken without proper consideration being given to the economic effects resulting from the consequent increases in taxation. It is realized the limitation of governmental expenditure to a stated percentage of gross national product would not be binding on government. However, it may provide an effective indicator - having psychological and moral influence - as to

the amount of expenditures Canadians can safely defray by taxation.

The Vancouver Board of Trade therefore RECOMMENDS THAT THE ROYAL COMMISSION ATTEMPT TO DETERMINE WHAT MAXIMUM PERCENTAGE OF GROSS NATIONAL PRODUCT EARMARKED FOR TAXATION COULD BE SUSTAINED IN THE BEST ECONOMIC INTERESTS OF CANADA.

2.2 METHODS OF RAISING GOVERNMENT REVENUE

The Vancouver Board of Trade recognizes that current financial exigencies of government have resulted in a high level of taxation in Canada and acknowledges that tax revenue must be sufficient - in the long run at least - to meet governmental expenditures. The Vancouver Board of Trade considers it essential for the sake of national financial stability and the equitable preservation of private capital to achieve a balance of revenues and expenditures except where economic policy would deliberately dictate otherwise.

Notwithstanding the foregoing, the Vancouver Board of Trade submits that the present federal, provincial and municipal tax structure may unduly inhibit national economic growth, hamper full employment, and hinder the Canadian ownership of business enterprise.

Accordingly, the Vancouver Board of Trade recommends the complete re-evaluation of the principles and of the laws governing federal taxation in Canada; each and every basic principle to be re-evaluated and each and every taxing provision to be re-analyzed to determine its present-day social and economic justification.

The extent to which each form of taxation contributes to these undesirable effects is, of course, difficult to determine accurately. Nevertheless, the Vancouver Board of Trade considers that a positive attempt be made to determine whether these undesirable effects of our present tax structure can be minimized by a re-allocation of tax burdens.

The Vancouver Board of Trade accordingly RECOMMENDS THAT CONSIDERATION BE GIVEN TO THE ECONOMIC AND REVENUE VALIDITY:

- I OF ESTABLISHING A PROPORTIONAL RATE OF TAX ON INDIVIDUALS AND A SINGLE RATE ON CORPORATIONS, OR TO A SCALE OF RATES OF MINIMUM PROGRESSION WHICH WOULD APPROACH THAT CRITERIA
- II OF MINIMIZING THE DOUBLE IMPACT OF INCOME TAXES ON CORPORATION EARNINGS
- III OF SHIFTING THE BURDEN OF TAXATION FROM INCOME TO COMMODITY TAXATION.

2.3 BROADENING OF THE TAX BASE

It is a corollary to the Board's views already expressed that in order to obtain the necessary revenues - particularly if any reduction in various tax rates is contemplated - a broadening of the tax base is desirable. The Board is of the opinion, however, that in addition to examining existing taxation principles and taxing sections as suggested above, equal care should be taken in order to ensure that any new tax form or any new incidence of an existing tax form is itself not overly repressive or inhibiting.

The Vancouver Board of Trade accordingly
RECOMMENDS THAT, WITH THE AIM OF WIDENING THE
TAX BASE, AN EVALUATION BE MADE OF THE NECESSITY
OF CONTINUING, AT THE PRESENT LEVEL, THE
SELECTIVE TAX CONCESSIONS AFFORDED UNDER THE
INCOME TAX ACT.

3. FORMULATION OF TAX POLICY

- 3.1 In the opinion of the Vancouver Board of Trade
economically sound and socially equitable tax
policies require constant research in order to
properly evaluate the economic and administrative
validity of such policies in terms of the national
interest.

Legislative proposals to modify or amend the tax
structure, prior to their consideration, should
be referred to a tax research division which
should report on the potential economic and
administrative effect of such proposals. This
report should also be made for public consideration.

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The Vancouver Board of Trade therefore RECOMMENDS
THAT CONSIDERATION BE GIVEN TO THE ESTABLISHMENT
OF A TAX RESEARCH DIVISION WITHIN THE DEPARTMENT
OF FINANCE WHICH WOULD UNDERTAKE RESEARCH AND
ANALYSIS OF CANADIAN TAX POLICIES, THE RESULTS OF
WHICH WOULD BE AVAILABLE FOR PUBLIC CONSIDERATION.

- 3.2 Under the present division of authority: the
administration of the income tax laws is the
responsibility of the Department of National
Revenue; the formulation of tax policy is the
responsibility of the Department of Finance; and
the drafting of tax laws the responsibility of
the Department of Justice.

The division of authority, although perhaps warranted in earlier days of nominal taxation, appears in the present circumstances to be unwarranted. It would appear axiomatic that sound tax policies and tax laws should be formulated and implemented by the same agency. The historical division of authority between departments of government should not be allowed to prohibit a closer realignment of functions in the field of taxation. In the experience of its members the Vancouver Board of Trade suggests that there exists too wide a division of authority between these various departments of government.

A higher degree of centralization of departmental responsibilities may afford better tax policies and tax laws.

The Vancouver Board of Trade therefore RECOMMENDS THAT A CLOSER ALIGNMENT OF GOVERNMENT FUNCTIONS IN THE FIELD OF TAXATION BE IMPLEMENTED.

4. INCOME TAXATION AND NEUTRALITY AMONGST TAXPAYERS

- 4.1 A cardinal principle of taxation is that taxation should be neutral in its incidence between similarly situated taxpayers. Pursuant to this principle, one would envisage that taxpayers similarly situated in the carrying out of business activities would be similarly taxed. Yet, such is not the case in Canada: co-operative organizations are granted tax concessions which - for all practical purposes - are not available to other corporate entities; privately owned public utilities are subject to income taxes while

publicly owned public utilities are not, even though they are both carrying on the same business activities; charitable organizations engaged in active commercial business are exempt from tax, while others carrying on a similar business are subject to taxation. Private business enterprise in these circumstances thus finds itself discriminated against as compared with other forms of enterprise under the tax laws, and placed at a competitive disadvantage with other organizations.

The Vancouver Board of Trade therefore RECOMMENDS THAT AMENDMENTS SHOULD BE MADE TO THE INCOME TAX LAWS TO PROVIDE THAT ANY INCOME EARNED IN THE CARRYING OUT OF A COMMERCIAL BUSINESS ACTIVITY BY SIMILARLY SITUATED TAXPAYERS SHOULD BE TREATED SIMILARLY FOR INCOME TAX PURPOSES REGARDLESS OF THE ORGANIZATIONAL CHARACTER OF THE TAXPAYER.

5. INCOME TAXATION AND CERTAINTY IN THE LAWS

- 5.1 Another cardinal principle of taxation is that there should be certainty in the application and incidence of taxation. The present Canadian income tax system, in the opinion of the Vancouver Board of Trade, does not meet a reasonable standard of certainty.
- 5.2 The question of what constitutes a non-taxable gain is an area in which the taxpayer can not be certain of the ultimate incidence of taxation. This uncertainty hinders the mobility of capital.

5.3 Certain gains which were thought by taxpayers to be, and treated by the tax revenue officials as, non-taxable gains in the past, have in many cases over a period of years gradually been found to be income for tax purposes. In the intervening period between the time these gains were treated as non-taxable and the time they were finally found to be taxable, taxpayers are completely uncertain as to whether or not such gains are in fact taxable. Decisions to realize such gains or to enter transactions giving rise to such gains are thus hampered. The treatment of discounts realized on mortgages illustrates this contention forcibly. In 1957 such gains were found by the Exchequer Court of Canada not to be taxable. The tax revenue officials nevertheless persisted in taking a number of such cases to the court for further adjudication. Finally, as a result of a decision rendered by the Supreme Court of Canada in 1963, such gains now appear to give rise to income for tax purposes in almost all cases.

5.4 In view of the existence of a comparatively high degree of uncertainty in the application and incidence of the tax laws, particularly insofar as what constitutes a non-taxable gain, the Vancouver Board of Trade RECOMMENDS THAT:

I ANALYSIS BE MADE OF ALL AREAS WHERE THE APPLICATION AND TREATMENT OF THE TAX LAWS HAVE CHANGED WITHOUT AMENDING LEGISLATION.

II A DETERMINATION BE MADE AS TO WHAT CONSTITUTES A NON-TAXABLE CAPITAL GAIN

UNDER THE PRESENT LAWS AND PRACTICES
ESPECIALLY AS REGARDS GAINS REALIZED
ON THE DISPOSITION OF CORPORATE STOCK
LISTED ON STOCK EXCHANGES.

III CONSIDERATION BE GIVEN TO THE ESTABLISH-
MENT OF AN INTERPRETATIVE REGULATION
PROCEDURE BY WHICH THE TAXING AUTHORITIES
WOULD MAKE PUBLIC THEIR TAX ASSESSMENT
POLICY.

6. INCOME TAXATION AND CLARITY IN THE TAX LAWS
Taxing laws and in particular income tax laws,
should be clear and unambiguous in their
application and incidence. Taxpayers, whether
individuals or corporations, should be able
to easily ascertain the application of the
tax laws in any particular circumstances.

The application and incidence of the income
tax laws on modern day business transactions,
it is submitted, are far from clear. Indeed,
in certain particular circumstances, there
exists no specific tax legislation clearly
setting out the incidence of taxation.

In other areas - such as corporate reorganiza-
tions - the laws are so general in their
application that - in the absence of informal
directions from the taxing revenue officials -
no exact determination can be made as to how
the circumstances are to be governed by the
Income Tax Act.

The Vancouver Board of Trade therefore RECOMMENDS:

- I THAT CONSIDERATION BE GIVEN TO THE
ESTABLISHMENT OF AN INTERPRETATIVE

REGULATION PROCEDURE UNDER THE INCOME TAX ACT UNDER WHICH TAX OFFICIALS WOULD DEFINE THE MEANING THEY ASCRIBE TO GENERAL TAXING PRINCIPLES IN THEIR APPLICATION IN PARTICULAR CIRCUMSTANCES.

- II THAT CONSIDERATION BE GIVEN TO THE IMPLEMENTATION OF AN ADVANCE RULING PROCEDURE IN THE DEPARTMENT OF NATIONAL REVENUE THROUGH WHICH TAXPAYERS COULD OBTAIN A RULING BY TAX OFFICIALS AS TO HOW THEY CONSIDER A PARTICULAR TRANSACTION WOULD BE AFFECTED BY THE TAX LAWS.

7. ESTATE TAX

7.1 UNIFORMITY

Federal estate taxes and Provincial succession duties are imposed at the present time in British Columbia, Ontario and Quebec. An estate tax, being imposed on the aggregate value of an estate of a deceased person, is of a substantially different character from a death duty which is imposed on the value of the benefit received by a beneficiary of the deceased person. Because of constitutional and legal requirements, different rules govern the incidence of estate taxes and succession duties. The need for dual rules as well as the distinct character of these two types of death taxes creates confusion in the minds of taxpayers and substantially increases the cost of administering estates both to government and to taxpayers.

Recognizing the constitutional problem involved THE VANCOUVER BOARD OF TRADE NEVERTHELESS

RECOMMENDS THAT ATTEMPTS BE MADE TO DEVISE
WHATEVER MEANS MAY BE APPROPRIATE TO PERMIT
THE IMPOSITION OF A SINGLE ESTATE TAX IN CANADA.

7.2 INCENTIVE TO ATTRACT AND RETAIN CAPITAL

While the retention of capital in Canada should be encouraged, the Vancouver Board of Trade is more concerned that foreign capital be attracted to Canada. Foreigners who would otherwise establish residence or domicile in Canada are discouraged from doing so in view of the resulting incidence of death taxes upon their estates. Considering both the equity and economic factors involved, the Vancouver Board of Trade is of the opinion that the incidence of estate taxes should only apply to capital accumulated in Canada.

THE VANCOUVER BOARD OF TRADE THEREFORE RECOMMENDS THAT PROVISIONS SHOULD BE MADE IN THE ESTATE TAX ACT EXEMPTING FOREIGN CAPITAL BROUGHT INTO CANADA BY AN INDIVIDUAL PROVIDED, HOWEVER, THAT FURTHER ACCUMULATIONS BE SUBJECT TO ESTATE TAXATION.

8. FEDERAL SALES TAX

The Vancouver Board of Trade, in view of current developments, does not propose to comment upon the policies governing federal sales tax in Canada, except to point out that too great a reliance is presently being placed on administrative rulings, discretionary powers, and departmental directives in administering the Federal Excise Tax.

THE VANCOUVER BOARD OF TRADE THEREFORE RECOMMENDS

THAT TO THE EXTENT TO WHICH A FEDERAL SALES TAX IS TO BE LEVIED IN CANADA, IT SHOULD BE LEVIED PURSUANT TO A DETAILED STATUTE.

9. DECENNIAL REVIEW

- 9.1 Business and personal activity in our society is always subject to constant changes. To ensure, therefore, that the taxing laws can - in addition to remaining as economically progressive and as equitably just as possible - accommodate changing circumstances, the Vancouver Board of Trade RECOMMENDS THAT MEASURES BE IMPLEMENTED TO INSURE THAT THE TAXING LAWS AND IN PARTICULAR THE INCOME TAX LAWS BE SUBJECT BY LAW TO AN OFFICIAL PUBLIC REVIEW EVERY TEN YEARS.

PART III

TAX POLICY QUESTIONNAIRE

The Tax Policy Questionnaire was designed by the National Tax Policy Committee in order to conduct a survey which would reflect the opinions of a representative cross-section of the business community on existing tax policies and other tax policies which have been advocated from time to time.

Ben W. Crow & Associates Ltd., of Vancouver, British Columbia, acted as consultants to the National Tax Policy Committee in devising the format of the questionnaire and summarized and tabulated the results of the survey.

This survey was conducted among the 1212 member firms of the Vancouver Board of Trade (May 1963). Each member was sent a printed mail questionnaire accompanied with a letter asking for their co-operation. A total of 581 members returned completed questionnaires. An additional 73 members phoned in specific comments, but did not fill out a questionnaire.

The following table shows the percentage of members who replied to this survey:

| | | |
|--|---|------|
| 581 MEMBERS COMPLETED A QUESTIONNAIRE | - | 48% |
| 73 MEMBERS PHONED SPECIFIC COMMENTS IN | - | 6% |
| 558 MEMBERS DID NOT REPLY | - | 46% |
| <hr/> | | |
| TOTAL 1212 MEMBERS | - | 100% |

The vast majority of the questionnaires received were completed with considerable care and attention. In many cases the respondents took the time to write additional comments on important questions. Because of this care

and attention, there is every reason to believe that the results, as reported, are valid.

There are some inherent weaknesses in all mail surveys. The most important of these is usually the bias of non-response. There is no guarantee that the persons who replied are representative of all members. In this survey, however, the response was almost 50%. Since this figure is very much better than the average for mail surveys, the bias of non-response is not as important a limitation in this study.

While it is not possible to prove representativeness statistically, it is felt that the high percentage response has given good reliability to the results.

THE SURVEY RESULTS IN TABULAR FORM

Question 1 **DOUBLE TAXATION**

At present, corporate income tax is levied both on corporations and upon individual shareholders whenever dividends are declared. This is referred to as "double taxation". The practice of double taxation is somewhat modified, however, in that individuals are allowed a deduction of 20% on dividends. This deduction is called a "dividend tax credit".

Which **ONE** of the following alternatives would you prefer on principle?

The Company should pay all the tax (personal income tax on dividends would be eliminated)

The Company should **NOT** have to pay any tax on profits distributed as dividends. Individuals should pay the tax fully (i.e. the 20% dividend tax credit is eliminated)

The tax procedure should be left as it is at present

| | TOTAL SAMPLE | |
|---|-----------------|------------|
| | No. | Pct |
| <u>Respondents</u> | <u>581</u> | <u>100</u> |
| The Company should NOT have to pay any tax on profits distributed as dividends | | 36 |
| Leave the tax procedure as it is at present | | 32 |
| The Company should pay all the tax | | 24 |
| Other answer | | 5 |
| Should be no tax on dividends | | 1 |
| Not answered | | 2 |

Question 11 DUAL TAX RATES

At present, corporate income of \$35,000 or less is taxed at 21%, while income above \$35,000 is taxed at 50%. Some people claim that a uniform tax rate of approximately 40% on all corporate incomes would be a desirable stimulus to the economy.

WHAT IS YOUR OPINION?

Uniform rate would be a desirable economic stimulus

Uniform rate would not be a desirable economic stimulus

| | TOTAL SAMPLE | | Company Income 0- \$10,000 | | Company Income \$10,001- \$35,000 | | Company Income \$35,001- \$100,000 | |
|-------------|-----------------|-----|----------------------------------|-----|---|-----|--|-----|
| Respondents | No. | Pct | No. | Pct | No. | Pct | No. | Pct |
| | 581 | 100 | 89 | 100 | 120 | 100 | 99 | 100 |

Uniform rate would not be desirable stimulus 65 86 76 63

Uniform rate would be desirable stimulus 31 11 22 31

Uniform rate but lower 2 2 1 2

Other answers 1 - - 2

Not answered 1 1 1 2

| | TOTAL SAMPLE | | Company Income over \$100,000 | | A Loss | | Not Liable for Corpor- ate tax or not answered | |
|-------------|-----------------|-----|-------------------------------------|-----|--------|-----|---|-----|
| Respondents | No. | Pct | No. | Pct | No. | Pct | No. | Pct |
| | 581 | 100 | 139 | 100 | 54 | 100 | 80 | 100 |

Uniform rate would not be desirable stimulus 65 45 67 62

Uniform rate would be desirable stimulus 31 50 29 34

Uniform rate but lower 2 2 2 -

Other answers 1 2 - 1

Not answered 1 1 2 3

Question III TAX SHIFTING

If corporate income taxes were moderately increased, how would your company or industry likely raise the additional funds?

WHAT IS YOUR OPINION?

My company or industry would likely:

| Respondents | TOTAL SAMPLE | |
|--|-----------------|--------|
| | No. | Out of |
| | 581 | 100% * |
| Absorb the loss (retain less earnings) | | 44 |
| Effect savings in overhead and administrative procedures | | 35 |
| Raise prices | | 32 |
| Declare smaller dividends | | 32 |
| Attempt to increase productivity of labor | | 31 |
| Hold Wage Rates | | 14 |
| Increase Sales | | 1 |
| Other answers | | 2 |
| Not applicable to my industry or business | | 2 |
| Not answered | | |

* More than 100% because of multiple mentions

Question IV EXPORTS

Again, if corporate income taxes were moderately increased, how would this increase likely affect the exports of your company or industry?

WHAT IS YOUR OPINION?

My company or industry would likely:

- Raise the price of exports
- Not raise the price of exports
- My company (or industry) does not export

| Respondents | TOTAL SAMPLE | |
|--------------------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Raise the price of exports | | 6 |
| Not raise the price of exports | | 17 |
| My company does not export | | 71 |
| Not answered | | 6 |

Question V ECONOMIC GROWTH

Some people claim that a reduction in corporate income tax would effectively stimulate the Canadian economy. Such a reduction could be obtained by increasing (for an uncertain period) the deficit in the National Budget.

WHICH WOULD YOU PREFER?

A reduction in corporate tax rates achieved by increasing the deficit in the National Budget

Present tax rates (no increase in deficit)

| | TOTAL SAMPLE | |
|---------------------------------------|-----------------|-----|
| | No. | Pct |
| Respondents | 581 | 100 |
| Present tax rates | | 65 |
| A reduction | | 28 |
| Reduce rates without deficit increase | | 3 |
| Not answered | | 4 |

Question VI DEPRECIATION

At present, a company's assets are classified into 18 different groups for depreciation purposes. A varying rate of depreciation is allowed for each of the 18 groups.

(A) IN YOUR EXPERIENCE DOES ANY TYPE OF ASSET ACTUALLY DEPRECIATE MORE RAPIDLY THAN THE MAXIMUM RATE ALLOWED FOR ITS GROUP?

| | TOTAL SAMPLE | |
|--------------|-----------------|-----|
| | No. | Pct |
| Respondents | 581 | 100 |
| Yes | | 20 |
| No | | 66 |
| Not answered | | 14 |

Question VI DEPRECIATION - Cont'd

(B) WOULD YOU PREFER TO HAVE FEWER CLASSES (AND THUS LESS ACCURATE RATES) IN ORDER TO SIMPLIFY THE PRESENT SYSTEM?

WHICH WOULD YOU PREFER?

The simplified system

The present system

| Respondents | TOTAL SAMPLE | |
|-----------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| The present system | | 59 |
| The simplified system | | 22 |
| Other answers | | 2 |
| Not applicable | | 3 |
| Not answered | | 14 |

(C) At present the government sets limits on the rates of depreciation that will be allowed for tax purposes. It has been suggested that this practice be replaced by a "book depreciation" system. Book depreciation would allow a company to depreciate assets at any rate it wishes as long as it uses the same rate in its financial statements.

WHICH WOULD YOU PREFER?

The suggested book depreciation system

The PRESENT depreciation system

| Respondents | TOTAL SAMPLE | |
|--|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| The PRESENT depreciation system | | 51 |
| The suggested book depreciation system | | 40 |
| Other answers | | 1 |
| Not answered | | 8 |

Question VII BUSINESS LOSSES

If a business incurs a loss in any one year, this loss may be applied to the previous year's profits (for a tax refund) or it may be carried forward for five years in order to reduce the amount of tax the company must pay in these years.

WHAT HAS BEEN YOUR EXPERIENCE?

Since 1950, have you ever incurred a business loss which you were not able to fully offset because you had insufficient profits in the preceding year or the succeeding five years?

| Respondents | TOTAL SAMPLE | |
|----------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes | | 14 |
| No | | 79 |
| Not applicable | | 1 * |
| Not answered | | 6 |

* Not responsible for corporate income tax

Question VIII CONSOLIDATED INCOME TAX RETURNS

A company having one or more subsidiary companies is not allowed to file a consolidated tax return in which the losses of some companies are offset against the profits of others.

(A) HAS YOUR COMPANY EVER HAD TO PAY MORE TAXES THAN IT WOULD HAVE HAD IT BEEN ABLE TO FILE A CONSOLIDATED TAX RETURN?

| | TOTAL SAMPLE | | Company is inter- related with other Canadian companies | | Single corporate entity in Canada | |
|--------------|-----------------|-----|---|-----|--|-----|
| | No. | Pct | No. | Pct | No. | Pct |
| Respondents | 581 | 100 | 217* | 100 | 332* | 100 |
| Yes | | 21 | | 37 | | 10 |
| No | | 47 | | 49 | | 48 |
| Not answered | | 32 | | 14 | | 42 |

The Respondents who answered "Yes" were asked:

DID THIS INCREASED TAX PAYMENT IN ANY WAY HAMPER
YOUR EXPANSION PLANS?

| | No. | Pct | No. | Pct | No. | Pct |
|--------------------------------|-----|-----|-----|-----|-----|-----|
| Respondents answering "Yes" | 119 | 100 | 80 | 100 | 32 | 100 |
| Yes | | 42 | | 45 | | 38 |
| No | | 58 | | 55 | | 62 |

(B) WOULD YOU FILE A CONSOLIDATED TAX RETURN EVEN IF THE
RATES APPLIED TO CONSOLIDATED RETURNS WERE 2% HIGHER?

| | No. | Pct | No. | Pct | No. | Pct |
|--|-----|-----|-----|-----|-----|-----|
| Respondents | 581 | 100 | 217 | 100 | 332 | 100 |
| Yes | | 14 | | 21 | | 10 |
| No | | 31 | | 46 | | 23 |
| Should not be a penalty for a consolidated return | | 1 | | 2 | | - |
| Depends on the situation | | 3 | | 4 | | 2 |
| Not answered | | 51 | | 27 | | 65 |

* These two tables do not add across to 581 because 32 respondents did not answer this question.

Question IX DEPRECIATION ALLOWANCE FOR MODERNIZATION

In order to encourage modernization in industry, the government passed a new regulation (1109). This regulation allows a company to claim a special rate of depreciation for the amount spent on new assets over the average spent for this purpose during a preceding period. This special rate is 50% greater than standard and applies to the first year.

- (A) HAS THIS REGULATION RESULTED IN YOUR ACQUIRING ASSETS SOONER THAN YOU WOULD HAVE OTHERWISE DONE?

| | TOTAL SAMPLE | |
|------------------------------|-----------------|-----|
| | No. | Pct |
| Respondents | 581 | 100 |
| Yes | | 7 |
| No | | 67 |
| Does not apply to my company | | 10 |
| Not answered | | 16 |

- (B) DO YOU THINK IT WILL SPEED YOUR FUTURE PLANS FOR ASSET PURCHASES?

| | TOTAL SAMPLE | |
|------------------------------|-----------------|-----|
| | No. | Pct |
| Respondents | 581 | 100 |
| Yes | | 17 |
| No | | 57 |
| Does not apply to my company | | 9 |
| Not answered | | 17 |

Question IX DEPRECIATION ALLOWANCE FOR MODERNIZATION
- Cont'd

(C) WOULD ANY RATE OF ACCELERATED DEPRECIATION PROMPT
YOU TO BUY ASSETS IN ADVANCE OF YOUR NORMAL PLANS?
IF "YES" - WHAT RATE?

| Respondents | TOTAL SAMPLE | |
|--|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes - No rate mentioned | | 8 |
| Yes - 50-75% | | 3 |
| Yes - 76-100% | | 3 |
| Yes - Additional allowance for succeeding years | | 1 |
| Yes - Other answers | | 3 |
| No - | | 53 |
| No - But regulation good | | * |
| This type of manipulation should not be allowed | | * |
| Does not apply to my company | | 9 |
| Not answered | | 19 |
| * Together equal 1%. | | |

Question X PRODUCTION INCENTIVE

A section of the income tax act (40A) allows manufacturing and processing companies a reduction in tax if their sales increase.

IS YOUR COMPANY ENGAGED IN MANUFACTURING OR PROCESSING?

| Respondents | TOTAL SAMPLE | |
|--------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes | | 31 |
| No | | 62 |
| Not answered | | 7 |

THOSE WHO WERE ENGAGED IN MANUFACTURING AND PROCESSING WERE ASKED:

Has this provision significantly helped your company?

| Respondents | No. | Pct |
|-----------------------------------|-----|-----|
| | 181 | 100 |
| Yes | | 19 |
| No | | 77 |
| Company too small to help/qualify | | |
| Do not know yet | | 1 |
| Not answered | | 2 |

THOSE WHO WERE NOT ENGAGED IN MANUFACTURING AND PROCESSING WERE ASKED:

Would an offer of a rebate of taxes based on increased sale alter your plans and activities?

| Respondents | No. | Pct |
|--------------|-----|-----|
| | 361 | 100 |
| Yes | | 30 |
| No | | 46 |
| Not answered | | 24 |

Question XI CAPITAL LOSS INVESTMENT ALLOWANCE

Suppose an individual or a company could recoup a substantial percentage of any capital loss resulting from an unsuccessful investment in certain approved British Columbia Industries.

- (A) DO YOU THINK SUCH A PROVISION WOULD BE EFFECTIVE IN ENCOURAGING INDUSTRIAL EXPANSION IN B.C.?

| Respondents | TOTAL SAMPLE | |
|--|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes | | 73 |
| No | | 17 |
| This type of manipulation should not be allowed | | 1 |
| Not answered | | 9 |

- (B) WOULD YOU APPROVE OF THE PLAN IF ITS SUCCESSFUL OPERATION REQUIRED SOME GOVERNMENT REGULATION?

| Respondents | TOTAL SAMPLE | |
|-------------------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes | | 57 |
| No | | 29 |
| Depends on type of regulation | | 1 |
| Not answered | | 13 |

Question XII CAPITAL GAINS

It has been suggested that a capital gains tax with a capital loss deduction be introduced in Canada.

(A) WOULD YOU FAVOUR SUCH A CAPITAL GAINS TAX?

| Respondents | TOTAL SAMPLE | |
|--------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes | | 25 |
| No | | 70 |
| Not answered | | 5 |

(B) IF A CAPITAL GAINS TAX WERE INTRODUCED WHAT RATE OF TAX WOULD YOU SUGGEST?

| Respondents | TOTAL SAMPLE | |
|-----------------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| 10% | | 26 |
| 15% | | 11 |
| 25% | | 9 |
| At regular income tax rates | | 1 |
| Other answers | | 4 |
| None/The minimum | | 4 |
| Not answered | | 45 |

(C) WHAT PERCENTAGE OF CAPITAL LOSS DEDUCTION WOULD YOU SUGGEST?

| Respondents | TOTAL SAMPLE | |
|--------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| 10% | | 11 |
| 15% | | 6 |
| 25% | | 7 |
| 50% | | 6 |
| 100% | | 20 |
| None | | 2 |
| Not answered | | 48 |

Question XIII INVESTMENT RESERVES

At present, depreciation helps a company to finance assets after purchase, but does not assist a company to accumulate funds before purchase

- (A) SUPPOSE YOUR COMPANY WERE ALLOWED TO RETAIN SOME EARNINGS (NOW PAID IN TAX) IN A FUND SET ASIDE FOR THE PURPOSE OF ACQUIRING ASSETS AT A FUTURE DATE. WOULD YOUR DEPRECIABLE CAPITAL ASSETS LIKELY BE SUBSTANTIALLY INCREASED AS A RESULT?

| Respondents | TOTAL SAMPLE | |
|--------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Yes | | 43 |
| No | | 44 |
| Not answered | | 13 |

- (B) WOULD YOU APPROVE OR DISAPPROVE OF SUCH A PROVISION IF THE TIMING OF THE USE OF THE RESERVE WAS SUBJECT TO GOVERNMENT REGULATION?

| Respondents | TOTAL SAMPLE | |
|-------------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Approve of provision | | 38 |
| Disapprove of provision | | 44 |
| Other answer | | 1 |
| Not answered | | 17 |

INFORMATION ON THE MEMBERS WHO REPLIED TO THE QUESTIONNAIRE:

1. Is your firm a public or a private company?

| Respondents | TOTAL SAMPLE | |
|-----------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Private company | | 84 |
| Public company | | 15 |
| Not answered | | 1 |

2. What was your corporate income before taxes for the last fiscal year?

| Respondents | TOTAL SAMPLE | |
|------------------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| 0 - \$ 10,000 | | 15 |
| \$10,001 - 35,000 | | 21 |
| 35,001 - 100,000 | | 17 |
| Over - 100,000 | | 24 |
| A Loss | | 9 |
| Not liable for corporate tax | | 5 |
| Not answered | | 9 |

3. Will your corporate income before taxes for the current fiscal year likely be:

Greater than last year?
About the same?
OR - Less than last year?

| Respondents | TOTAL SAMPLE | |
|------------------------|-----------------|-----|
| | No. | Pct |
| | 581 | 100 |
| Greater than last year | | 38 |
| About the same | | 38 |
| Less than last year | | 15 |
| Not answered | | 9 |

INFORMATION ON THE MEMBERS WHO REPLIED TO THE QUESTIONNAIRE:

- Cont'd

4. Is your firm interrelated with other Canadian corporate entities, or is it a single corporate entity in Canada?

| | TOTAL SAMPLE | |
|---|-----------------|------------|
| | No. | Pct |
| <u>Respondents</u> | <u>581</u> | <u>100</u> |
| Interrelated with other Canadian corporate entities (in a subsidiary, parent, or sister relationship) | | 37 |
| A single corporate entity (in Canada) | | 57 |
| Not answered | | 6 |

5. What is your firm's principal interest?

| | TOTAL SAMPLE | |
|---|-----------------|------------|
| | No. | Pct |
| <u>Respondents</u> | <u>581</u> | <u>100</u> |
| Retail and Wholesale | | 20 |
| Industrial, commercial goods, or commodity production | | 19 |
| Professional services | | 18 |
| Transportation, utility, and related services | | 10 |
| Consumer goods production | () | 8 |
| Heavy and light construction (including shipbuilding) | | 5 |
| Primary only (mining, logging, fishing) | | 3 |
| Other services | () | 11 |
| Other General | | 4 |
| Not answered | | 2 |



1 A letter I mailed to every M.P. at Ottawa.

2 G.V.T.

3
4 Dear Member of Parliament:

5 I am enclosing a copy of my Brief which I
6 will present to the Royal Commission on taxation.
7 It is your prerogative to agree or disagree with
8 it. However, I think this is an opportunity that
9 every person should take advantage of, interest
10 themselves and should not let pass by.

11 Canada needs a reformed parliament. The
12 party system should be abolished. Parliament
13 should appoint the administration. When the
14 administration is appointed by a leader of a party
15 it is very close to the principles of fascism -
16 centralized authority.

17 Every Member of Parliament should ascertain
18 from their constituents the conditions and results
19 wanted on every subject matter ... not what a
20 political party or the Member of Parliament wants
21 to give or do for them. This would be democracy...
22 policy coming out from the people. Let us have
23 democracy.

24 In Canada our Government, irrespective of
25 party, does the same thing as Hitler did. When
26 Hitler became Chancellor of Germany he called the
27 Reichstag together, made a short speech and told
28 them that the National Socialist German Workers
29 Party had a policy "We don't need you to put our
30 policy into effect, you can go home." We do the



1 same thing, only in a more diplomatic manner,
2 by a system of artifice.

3 In parliament all policies come out from the
4 government, the cabinet and, if the government
5 has a majority of members; they know then and
6 there that their policies will become law.

7 When a policy is presented to parliament
8 in the form of a bill, there will then be speakers
9 wrangling and mud-slinging and when the time comes
10 to vote on the bill the whips on the side of the
11 government will whip out their rubber stamps to
12 vote for that bill, and the whips on the opposition
13 side will whip out their rubber stamps to vote
14 against the bill. It would be idiotic to call that
15 democracy.

16 If there ever was a word misunderstood,
17 misconstrued, twisted and made to mean anything
18 but what it does, that word is democracy. It is
19 not nor ever was a Greek word. It was a coined word
20 by joining these two words "Demo" and "Cracy"
21 together and, when joined, the word "Democracy"
22 came into being.

23 The word "Demo" is derived from the Greek
24 word "Demos" and "Cracy" is derived from the Greek
25 word "Kratos" meaning the people's authority, and
26 where there is authority there is power. Then,
27 that means the people's power... What power do the
28 people have? Very little. The only power they
29 have, while important, is the vote and that is
30 a very minute part of democracy.



1 The ancient Greeks had it in these words...
2 Demokratia Kratos Kratein...meaning "The people's
3 power and authority to rule." Note carefully -
4 not to be ruled nor to appoint or elect rulers,
5 nor delegate this power to any Oligarchy, such as
6 political parties. We cannot have democracy and
7 political parties at the same time. Party means
8 part of and, in this case, part of the people, and
9 a small part at that. The word "Democracy" has no
10 adjective, affix, suffix, prefix, such as political,
11 economic or social.

12 In essence we use the old Roman system; the
13 people elect their rulers and they are ruled. Each
14 party claims to rule the people better than the
15 others...the antithesis to democracy. It is my
16 opinion the party system and responsible government
17 should be abolished and in it's place we should
18 establish a responsible parliament.

19 The policy should come out from the people
20 through the parliament stipulating the conditions
21 and results required per subject matter, but refrain
22 from stipulating methods as to how it should be done.
23 Parliament to process these policies to become law,
24 and then handed over to the administration whom
25 parliament has appointed and they to find the methods.
26 This would be democracy...Greek "Demos Kratein"
27 the people rule. Policy should not come out from
28 a political party nor out from the government.

29 We read and hear much about Communism but
30 not one writer nor speaker gives a slight clue as



1 to why we have Communism. Communism is not a cause...
2 it is an effect, due to a cause, and the cause is
3 easily found. Poverty and semi-poverty is the
4 cause, which is brought on by inequitable dist-
5 ribution of goods and services, which brings
6 dissatisfaction.

7 It is our debt financial system which is the
8 root cause, and this system is in the hands of an
9 Oligarchy who, by artifice controls government and
10 industry. Communism and Socialism take their
11 basic policy from Karl Marx. Their difference
12 is the method to obtain their ends.

13 Poverty and sem-poverty is an absurdity and
14 should be abolished. Money is the instrument to
15 distribute the abundance that we have and money
16 should be the servant of the people, not their
17 master, as it is. Finance must work for the people,
18 not work them, as it does. Production is not the
19 problem. Distribution (consumption) is the problem,
20 and this can be accomplished.

21 There is a subtle power who keeps the people
22 in subjection and that power is finance, and finance
23 means the art to provide money and that art is in
24 the hands of an Oligarchy who, by artifice, keeps the
25 people in debt. Money is the greatest power on
26 earth and that power should be in the hands of the
27 people through Parliament.

28 Why is it that the people must depend on the
29 bank borrowers for their supply of money, and why do
30 you uphold it? It cannot be denied that money comes



1 into existence by borrowing from the banks, and the
2 banks do not lend the depositors money but every
3 bank loan creates a new deposit and when repaid, that
4 deposit is cancelled out of existence. Money
5 reflects debt and not goods and services and is a
6 power beyond the control of the people. It is a
7 power that controls governments and will control
8 the present government unless the Members of
9 Parliament take action to return that power back
10 to the people through parliament, where it belongs.

11 Unemployment can be overcome by financing
12 consumption, by using our national credit without
13 creating a debt nor inflation. This would move
14 goods and services which would have to be replaced
15 and that would create employment.

16 Whom do our members of parliament represent?
17 Their party or their constituents? If they re-
18 present their party, then they hoodwink their
19 constituents; if they represent their constituents,
20 then they must ignore their party; they cannot
21 serve two masters.

22 When we go to the polls to vote we say by
23 our action "I choose John Doe, who represents a
24 political party, so and so, and not the people, to
25 rule me...to tell me what to do and what not to do,
26 for the next four or five years." To call that
27 democracy is nonsense, idiotic. I oppose the party
28 system.

29 As a member of Parliament it is your duty
30 to study our monetary, financial and taxation system.



1 You will then find the fault and remedy. It is your
2 duty to see that parliament has complete control
3 over the cabinet, over the administration and over
4 every institution, and that there is no power beyond
5 the control of the people,

6 It is your duty to see that all policies come
7 out from the people through parliament, but not
8 method...that belongs to the administration. It is
9 your duty to see every Canadian has access to the
10 abundance that we now have. It matters not who
11 produces the abundance. This can be done.

12 It is not your duty to become mere rubber
13 stamps to be rounded up by the crack of the whips.

14 Will you do your duty?

15 Our Members of Parliament are bound to a
16 political party dogma and they do what they are
17 told. There will be no change until the people
18 are able to delve, think and analyse and think things
19 out for themselves and not allow the few to do the
20 thinking for them.

21
22 (Signed) G. V. Towle,
23 2456 East 37th Avenue,
24 Vancouver, 16, B.C.
25
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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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THE ROYAL COMMISSION ON TAXATION

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- 8 -

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5 Mr. G. L. Bennett,
6 Secretary,
7 The Royal Commission on Taxation,
8 P.O. Box 466,
9 Ottawa, Canada.

10
11 Dear Sir:

12 I have the honour to provide herewith
13 my thoughts in the matter of taxation, which I
14 trust may be of interest.

15 This Brief is a personal effort and I
16 hope it will be of some value.

17 Yours very truly,

18
19 (Signed) G.V. Towle,
20 2456 East 37th Avenue,
21 Vancouver 16, B.C.
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Mr. G. L. Bennett, Secretary
The Royal Commission on Taxation
P. O. Box 466, Ottawa, Canada.

Dear Sir:

(1) I cannot see how we can divorce the taxation system from our monetary system, as money must come into existence before taxes can be collected.

(2) Money comes into existence only by the bank borrower and he borrows as little as possible. Also, he is creating a debt against himself and must repay and when repaid, that amount of money is taken out of circulation.

(3) As it is, the taxpayer must depend upon the bank borrower to supply the money so that he can pay taxes. Taxes always increase the cost of goods and services and reduce purchasing power. This, in turn, demands an increase in wages, salaries and fees. This again increases cost and is carried into price, causing inflated values.

(4) Governments at all levels must borrow from the banks before taxes can be collected. They borrow many millions and they spend it into circulation into the hands of the people. Then taxes can be paid and when paid, the loans are repaid plus interest and that money is cancelled out of existence. This applies on all bank borrowing.

(5) All bank borrowers must repay more than they receive as they must pay interest. That means that somewhere along the line there is an unpaid or



(5) part of an unpaid loan and that is mostly Government, hence increased debt. All bank loans are financial credit, book entry figures.

(6) Our Constitution and the Courts gave Parliament the right to issue money in all forms; that is, coin, currency and financial credit. Parliament gave this right over to the banking system free; then, when money is needed, some person or persons, corporations, Government and others, must go to a bank and borrow back that which was given them, create a debt and pay interest. I do not think anything could be more stupid. The Banks must not be blamed, the people must blame themselves.

(7) Before our taxation system can be changed our monetary system must be changed. That right which our Constitution and the Courts gave Parliament: Parliament to empower the Bank of Canada to provide financial credit through the chartered banks, to finance all governmental budgets, federal, provincial, cities, municipalities and other governing bodies, without debt.

(8) Taxation should not be for revenue purposes, but for a regulation device to control both inflation and deflation. Only personal income should be taxed, with proper exemptions. All other taxes should be abolished. This would lower the cost of living, increase our standard of life, increase consumption and would bring on full employment.

(9) Industry, agriculture and labor would carry



(12) and many other Marxian movements. Also, it would check Fascism.

(13) Under our debt financial system, debt will increase and then the amount of interest will increase which, in turn, will cause taxes to increase. This increase goes into cost and is carried into price, and up goes inflated values and, under our debt financial system, nothing can stop it.

(14) I am not interested in the policies of political parties. I am interested in the people. I am not interested for myself as I am comfortably well off, have traveled widely in our Provinces and everywhere I find poverty, and semi-poverty, mostly caused by debt interest and taxation. This condition should be abolished. It can be done.

(15) I have made a keen study of this subject for years and I find that under our debt financial system debt, interest and taxes will rise at a higher rate of speed, and there is no power in the country can stop this other than reform. Before the taxation system can be reformed our monetary system must be reformed.

(16) No person can claim that they own their home or other property as long as authority has first claim on it and taxation is eating into property very deeply. I cannot see it necessary to quote figures. It is the system that we should closely examine and the effect it has on the people and that effect is very iniquitous.



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10 .D..N. GUENTHER
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15 ROYAL COMMISSION ON TAXATION
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25 January 17, 1963.
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D. N. Guenther,
3325 Quebec St.,
Vancouver 10, B.C.
January 17th, 1963.

The Royal Commission on Taxation,
P.O. Box 466,
Ottawa, Ont.

Dear sir: Re: Submission to the Royal Tax Commission on
the origin and results on all-over taxation
for Public Hearing.

What does the word Taxation mean? In our
English language, it surely means a portion, rate or
percentage of an income or production. It surely is not
a word that applies to cover up this confiscation and
extermination that prevails.

Do we speak English here in Canada, and mean
otherwise, such as sales tax applied to the purchaser,
where it should be applied on the person that is selling
(the Vendor). The purchaser of electricity, who pays for
the services, is charged with a commercial rate when this
commercial rate applies only to the Vendor. I wish those,
in authority, would be good enough and use the dictionary
and make sure just what they are doing.

How is an individual tradesman to maintain a
living under present circumstances and taxations? He
pays income tax on the money earned in wages where he
cannot afford to pay the rent nor afford to have a house
built by the contractor due to unemployment. This
individual is circumstantially compelled to build a house
for himself to make his time worthwhile. In order to do



1 this, he has to pay the full price for the lot, plus sales
2 tax and property tax, buy all the building material at
3 cost price, plus sales tax and improvement tax, yet he
4 is not exempted from the income tax for the expenditure.
5 How is an individual to compete and remain alive where
6 the monopolists are making their profits in business tax
7 free? How does the Commission account for such procedures?

8
9 Example One:

10 The monopoly that generates electricity free of
11 all taxes at the cost of the residents who already have
12 paid threefold for the projects (dams and machinery) and
13 where the electricity is a natural resource, which is a
14 heritage and property of all residents.

15
16 Example Two:

17 Taxation so much per acre, is wrong, for
18 preparing the summer fallow is an expense where no income
19 can be obtained the same year in case of crop failure.
20 How could he possibly meet taxation and continue farming
21 on a sound basis? On the other hand, if he would have
22 been taxed (taking a portion) on what he produced, this
23 would not endanger him of losing the farm and would give
24 him a better chance for re-establishment and the Tax
25 Commission would have a better chance of collecting more
26 revenue in the long run.

27 In fact, to be honest, one must state that the
28 invisible God of these sons of David, as they call
29 themselves, has submerged. There is no use of closing
30 our eyes on that fact, how this devouring monster operates



1 in indirect extermination of mankind.

2

3 Example Three;

4 For instances, the Granville Bridge that has
5 been built a few years ago at the cost of Eighteen Million
6 Dollars and the cost of many lives of the residents of
7 Vancouver due to over-taxation which put them into
8 suffering slavery and final death for that purpose for
9 they did not have time, nor money to go to the Courts so
10 they could defend their existence -- they were too busy
11 providing for their families where they collapsed in
12 exhaustion to raise the money for taxes in order to keep
13 their families fed and under a roof. Regardless of the
14 deceased providers or bread-winners, the families were
15 dispersed, as they call it, into the sticks.

16 All the taxes and school taxes, paid for thirty
17 years or so, and schools been built by these people, had
18 to be left and they had to go.

19 Talking about widow pensions, there are more
20 investigators than widows collecting widow pensions.
21 These investigators, putting in their time by riding in
22 big cars at the cost of the money they deprived these
23 unfortunates of who were entitled to it.

24 The Workmen's Compensation Act operates on the
25 same basis. How much taxes is the Commission receiving
26 from these concerns. Eighteen million spent on the
27 Granville Bridge -- how much has been spent on the labor-
28 ing force. No more than a couple of hundred thousand
29 dollars. Just how much tax has been received and isn't
30 it obvious that the rest has been divided between the



1 contractors and the authorities in power.

2 There is always big headlines in the papers on
3 how much money is spent, in order to impress the readers
4 that all is well, never the source where the money is
5 going to. The tradesmen and laborers (some) are lucky
6 to get work six months out of a year, and spend the rest
7 of the time like horses in the prairies behind the straw-
8 stacks, and some remain unemployed.

9 The Granville Bridge, the Oak Bridge, the Dies
10 Tunnel, with five and ten miles of cloverleaves and over-
11 passes, over all mudholes and ditches they could find in
12 Vancouver; and the Second Narrow Bridge where they laid
13 off all tradesmen and replaced them with D.P.'s and scabs,
14 to have an all-clear conscience for wreching three-
15 quarters of the bridge already constructed, in order to
16 make it worth their while collecting all the money they
17 could, regardless of how unscrupulous it would have to be
18 at the cost of the lives of residents due to over-taxation
19 and the lives of those working on the bridge (the glass-
20 cage and churches).

21 Just how much in taxes has the Commission
22 received from these concerns?

23

24 Example Four;

25 The contract awarded by our Administration here,
26 in Vancouver, to the Pacific Perinle outfit -- a project
27 of about five square miles for Six Million Dollars, which
28 is about three years in construction. This outfit has
29 safeguarded itself to the full extent, waste the taxpayers
30 time and money, abuse tradesmen and laborers who are



1 kept in constant fear of lay-offs by using the method of
2 two cranes, two cats, and other machinery and which is
3 used to supply building material to the tradesmen and
4 laborers at work. From one end to the other, this keeps
5 some crews idle due to inefficiency in supplying the
6 material to do the work with; so, they in supervision,
7 have an excuse to justify themselves to lay these men off
8 with the guilt imposed that they were not working; so,
9 they the contractors, can accelerate their machines empty
10 all around the project and fill their time sheets and
11 collect plus costs.

12

13 Example Five:

14 The Legions that are making approximately
15 \$9,000 a week in profits are tax free, because they donate
16 some dollars and cents to the Red Feather. Liquor and
17 Harbour Boards that are making tremendous profits without
18 spending. Are they paying taxes? How much in proportion
19 to the homeowners, and where are they applied?

20

21 Example Six:

22 The price of flour has been five dollars per
23 sack for the last forty years and still is. Where the
24 loaf of bread delivered, cost 5¢, a loaf now costs 20¢
25 delivered. The price for a can of hundred lb. (10 gal.
26 or 40 quarts) of milk was \$5.00 and a quart of milk was
27 then delivered for 5¢. Now the producer isn't getting
28 much more but the retailer is charging 23¢ a quart
29 delivered. What are the taxes in comparison to the
30 Producer and Retailer?



1 Example Seven:

2 The Vehicle Insurance, Driver's Licence, Fire
3 Insurance. The Fire Departments are operated at costs
4 of the City Hall in Vancouver. With all these grant
5 raises in taxation and a new imposed sales tax plus other
6 tremendous incomes since 1946 with all of these incomes
7 handed on a silver platter with no expense involved to
8 the receiving, our country and livelihoods have been put
9 into bankruptcy and destitution. Where previous to 1946,
10 with none of these incomes in hand, all the able men were
11 employed and maintaining a respectable livelihood and
12 able to pay their taxes. In fact, the people on the
13 whole were in a much better standing in comparison to
14 present conditions with all these colossal gains in
15 income. Are these incomes distributed? Isn't it obvious
16 that all these crimes committed by the ones holding
17 Government positions, defrauding the individuals of
18 managing their livelihoods by enforcement of unemployment,
19 secondary, taxing those maintaining their own livelihood
20 out of existence. These victims have no protection
21 against these criminals. They are not recognized by the
22 Courts because they are committed by the Crown.

23
24 Example Eight:

25 The N.H.A. homes built here in Vancouver since
26 1947, and sold at so much down and so much a month --
27 what happened? They, the N.H.A., gathered all the cash of
28 the purchasers and all their earnings in about a period
29 of fifteen years up to date, when the N.H.A., in co-
30 ordination with the authorities in power, ceased or



1 seized employment in order to foreclose on the purchasers
2 and resell the properties. Those people, who were still
3 able to make their payments, their taxes have been raised
4 almost double every year, so they can appropriate the
5 property for taxes and let the Real Estates sell the
6 appropriated properties for them. When sold, the
7 Administration is allowed to make By-laws to suit them-
8 selves to appropriate rights of managing private owner-
9 ship and maintain a livelihood by gathering all currency
10 into their safes, plus owning all the properties
11 appropriated which gives them the power to compel the
12 population into desitution to impose suffering slavery
13 which automatically exterminates the human race.

14 Now, gentlemen of the Royal Tax Commission,
15 we must realize that we are living in the Twentieth
16 Century of civilization, and not in a Stone Age of
17 cannibalism where these confiscations and indirect
18 exterminations would take place. Don't you think we have
19 gathered enough knowledge through bitter experiences in
20 the past two thousand years, that the actions mentioned
21 above are out-modeled and out-lived -- they are no longer
22 adequate in this stage of civilization.

23 The authorities must use common sense in
24 taxation for it has become a inconceivable security risk
25 to the people of Canada.

26 The Crown, a Governing Force, is entitled to a
27 portion of the incomes and productions only to the extent
28 that it does not endanger the lives of the people so tha
29 said people can continue to maintain a human standard of
30 living, still own their abode, and perpetuate their



1 livelihood.

2 Under the present confiscations and indirect
3 extermination tactics, the Government will be compelled
4 to face grave catastrophic consequences and this is not
5 because I feel or think so, but it is going to be so,
6 and nobody will be able to do anything about it -- As
7 the fate of the Titanic that run aground with all the
8 people aboard, because of an intoxicated maniac and a
9 sane and sober crew who foreseen the danger and warned
10 the maniac, but did not have the sense to resign from
11 their posts to avert the catastrophe.

12 May I ask the Royal Commission -- how much
13 revenue are you collecting from the uninhabited lands
14 owned by the Crown? Is it a sound judgment to allow the
15 foreign interests reap the natural resources, exploit
16 the Canadians, free of taxes, where the Canadian Citizens
17 are taxed out of their livelihoods? Isn't it why these
18 lands, uninhabited and under-developed, are kept that
19 way, otherwise these lands would be producing and bring
20 good revenue to the Crown?

21 If you would be good enough and place yourself
22 into our circumstantial conditions, where you would have
23 to pay a tax on these Crown Lands to the people, so much
24 per acre, just how long would you be the owner of the
25 land and how long would you remain alive?

26 Now, if you would give the Canadians a little
27 more leave-way in production, slackening of taxation,
28 not to make people pay for something that does not
29 produce, I'm positive that you would be able to collect
30 all the revenue you needed, not committing these



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10

1 unscrupulous, needless, capital crimes of indirect
2 extermination and running this Country into bankruptcy.

3 Yours truly,

4 D. N. Guenther.

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TORONTO, ONTARIO

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A PLEA FOR USEFUL TAXATION

The Canadian government is looking for additional
sources of revenue.

In this search, it has overlooked a simple device
whereby it can meet all its revenue needs from the income
tax alone.

In its present form, the income tax cannot be
raised without doing great harm to the economy. In its
present form, the income tax discourages initiative. It
drives ambitious people from the country. It discourages
investment. It reduces our investment capital so that
our resources must remain undeveloped or fall into the
hands of foreigners.

This can easily be corrected. The income tax can
be changed from an unjust, harmful tax to a just and
useful tax. It can be used to encourage, not discourage,
investment. When it is changed to a useful tax, the rate
of taxation can be raised with beneficial effects on the
economy.

To this end, I propose the following three amend-
ments to the Income Tax Act.

1. For the purpose of calculating personal income
tax, the individual should deduct from his taxable income
whatever amounts he had registered in government-approved
investment or savings plans; but he should add to his
taxable income any amounts withdrawn from such registered



1 savings.

2 2. For the purpose of calculating corporation
3 income tax, the corporation should deduct from its taxable
4 income all dividends paid to Canadian shareholders.

5 3. Capital gains should be taxed in the same
6 manner, and at the same rate, as ordinary income.

7 Amendment No. 1.

8 "For the purpose of calculating personal income
9 tax, the individual should deduct from his taxable income
10 whatever amounts he had registered in government-approved
11 investment or savings plans; but he should add to his
12 taxable income any amounts withdrawn from such registered
13 savings."

14 At first glance, this amendment may seem super-
15 fluous.

16 The Income Tax Act was amended in 1957 to exempt
17 from immediate taxation a portion of income invested in
18 government-approved annuities. This was a move in the
19 right direction but it did not go nearly far enough. No
20 more than 10 percent of one's income could be so exempted.
21 Only a few types of investment were allowed as an exempt-
22 ion and most of these entailed high brokerage or manage-
23 ment fees. The conditions under which the savings could
24 be withdrawn were not sufficiently flexible. The rate
25 of taxation, moreover, was not high enough, in my
26 estimation, to compel people to take advantage of this
27 exemption.

28 This amendment should be extended so that the
29 taxpayer could deduct from his taxable income whatever he
30



1 invested in government bonds, investment funds, corpora-
2 tion bonds, stocks, life insurance, or even bank deposits.

3 Then the personal income tax would be a just tax.
4 The income earner would not be taxed on what he earned,
5 but only on what he spent for his own consumption. What
6 he put back into the productive capacity of the nation
7 would be tax-free for the time being. It would be taxed
8 not when it was invested but when it was withdrawn from
9 investment.

10 The personal income tax would be changed, in effect,
11 to a consumer spending tax.

12 A consumer spending tax is the fairest of all taxes.
13 All taxes are, of course, taxes upon what the consumer
14 spends; but whereas other taxes fall unequally upon
15 particular commodities (e.g., a sales tax is added to the
16 cost of an electric razor but no equivalent tax is added
17 to the cost of a haircut), a true consumer spending tax
18 falls fairly on everything that the consumer buys or
19 rents, whether it be goods, services, or real estate.

20 It is not fair to tax necessities and luxuries
21 alike. Luxuries should be taxed; necessities should not.
22 We have tried to adjust our sales taxes, excise taxes,
23 and "luxury taxes" in such a way that they will apply to
24 luxuries but not to necessities, but the attempt has
25 been in vain. One pair of shoes is a necessity and should
26 not be taxed; twelve pairs of shoes are a luxury and
27 should be taxed; but what tax can differentiate between
28 them?

29 The fairest way, and in fact the only way, to tax
30



1 luxuries while exempting necessities from taxation, is by
2 means of a graduated consumer spending tax. It allows
3 every consumer to spend a certain amount each year for
4 necessities without paying any tax. It taxes only those
5 consumers who spend more than their share. The consumer
6 spending tax is a penalty for over-spending. If a consumer
7 spends less than his quota, he has to pay no tax no matter
8 how much income he earns. If he spends more than the
9 quota, however, he must pay a steeply-progressive tax.

10 How high should the spending quota be?

11 The basic exemption for the income tax at present
12 is \$1000. This is probably a bit too low an exemption
13 for the consumer spending tax. A \$300 exemption for
14 children is certainly much too low. Since the production
15 of consumer goods in Canada now exceeds \$1500 per capita,
16 the consumer spending quota might justifiably be set at
17 \$1500 per year for every man, woman, and child. Thus, a
18 married man with two children should not have to pay
19 any tax as long as he did not spend more than \$6000 a
20 year.

21 Above this basic exemption the rate of taxation
22 should be high, and it should be steeply graduated. The
23 present rate of tax on personal income starts at 11%.
24 Even this rate is too high when it is levied on income.
25 A tax on consumer spending, however, should start at a
26 much higher rate. It is even recommended that the rate
27 start at 50 percent of the next \$3000 of taxable (i.e.
28 un-invested) income, 75 percent of the next \$6000 of
29 income, 87½ percent of the next \$12,000 of income, and so
30



1 on. The higher the rate of tax, the more incentive the
2 taxpayer would have to save and invest his money.

3 This shows the important difference between the
4 income tax and the consumer spending tax: a high rate of
5 taxation on consumer spending encourages investment, while
6 a high rate of taxation on personal income reduces the
7 amount which the taxpayer can invest. The consumer
8 spending tax is a useful tax, and it can safely be raised
9 to a high rate, while the income tax is a harmful tax
10 and any increase must be avoided.

11 The income tax is a much less effective means of
12 controlling consumer spending. Once a man has paid the
13 tax on his income, he is free to spend the remainder of
14 his income any time he wishes. There is no further check
15 on the velocity of his spending. The consumer spending
16 tax, by contrast, acts as an effective check on the
17 velocity of spending. By adjusting the consumer spending
18 quota and the rate of taxation, the government can
19 effectively control the rate of consumer spending. The
20 consumer spending tax is a precise tool for the control
21 of the national economy.

22 It would be a pity if such a useful tool were used
23 for nothing but to balance the national budget. If the
24 consumer spending tax raised enough revenue to equal
25 government expenditure, that would be a co-incidence,
26 but of no practical significance. What is important is
27 that the rate of consumer spending within the community
28 should be set at such a level that neither over-consumption
29 nor under-consumption should result. Too high a rate of
30



1 consumption would result in a depletion of inventories,
2 increased imports, and a consequent rise in prices; too
3 low a rate of consumption would result in undesirably
4 high inventories, unemployment, and slight lowering of
5 prices. The consumer spending tax should be adjusted to
6 maintain a satisfactory balance between these two extremes.

7 Up to now, the government has had no effective
8 means of dealing with over-consumption and under-
9 consumption. When a recession is imminent, the government
10 may embark upon a crash program of public works; such
11 programs are usually wasteful and they usually take too
12 long to set in motion.

13 Alternatively, when a recession is imminent, the
14 government may lower interest rates and offer tax con-
15 cessions to corporations in order to encourage more
16 spending for business expansion. This remedy fails too
17 often because business expansion also takes a while to
18 get under way, and even then it offers only a short-term
19 solution to the problem of under-consumption.

20 The ineffectiveness of these measures contrasts
21 sharply with the absolute control obtainable with the
22 consumer spending tax. The consumer spending tax could
23 be varied from year to year or even from month to month
24 (in the unlikely event that this was necessary) to bring
25 about the correct level of consumer spending. When
26 inventories were excessive, a small reduction in the
27 Consumer Price Index would indicate that the spending
28 quota should be raised; when inventories were shrinking
29 too fast, a small rise in the Consumer Price Index would
30



1 indicate that the spending quota should be lowered.

2 Thus the government could prevent creeping, or
3 galloping, inflation; and thus also prevent large-scale
4 unemployment and depression. These should be the first
5 aims of government financial and taxation policies.

6 Another advantage of the consumer spending tax,
7 no less important, is that it would be a form of compul-
8 sory saving. It would encourage Canadians to save. As
9 their savings increased, so would their financial security.
10 They would have less reason to fear unemployment or
11 disability. Their sense of participation in the national
12 wealth would make them more conservative, more law-
13 abiding.

14 The amount of money available for investment in
15 Canada would be greatly increased. This would help bring
16 down interest rates. Business expansion would be
17 encouraged.

18 These beneficial effects would be further augmented
19 by the second proposed amendment.

20 Amendment No. 2.

21 "For the purpose of calculating corporation income
22 tax, the corporation should deduct from its taxable income
23 all dividends paid to Canadian shareholders."

24 This amendment would correct a long-standing in-
25 justice. It would avoid double taxation. Since the
26 recipient of the dividend, if he resides in Canada, is
27 taxed by the Canadian government, it is quite unjust that
28 the income of the company should also be taxed.

29 Moreover, since mortgage interest payments are
30



1 accounted as a business expense, why should not interest
2 or dividends on bonds and stocks be similarly accounted
3 as a business expense?

4 The government, by way of acknowledgement that it
5 is unfair to tax a corporation and also its shareholders,
6 allows a dividend tax credit to the shareholders on their
7 personal income tax. It would be fairer and more bene-
8 ficial to drop the dividend tax credit and allow instead
9 the corporation to deduct its dividend payments (to Can-
10 adian shareholders) from its taxable income.

11 This amendment would give a competitive advantage
12 to a corporation owned by Canadian shareholders over
13 another corporation owned by non-Canadians. From the
14 taxation standpoint, every company would find it
15 advantageous to be owned by Canadian shareholders.

16 The main purpose of the corporation income tax,
17 then, would be to discourage foreign investment in
18 Canadian industry, and to extract a bit of the profit
19 from that investment. The tax rate could be raised or
20 lowered depending upon whether we wished to discourage or
21 encourage foreign investment in Canada.

22 The high rate of return on investments in Canada
23 has attracted so much foreign investment that most of our
24 industry is now owned by non-Canadians. This is an un-
25 healthy state of affairs and should be corrected in an
26 orderly fashion by buying out foreign investors.

27 Tax exemption for investments would give Canadians
28 the means with which to buy out foreign shareholders; the
29 corporation tax on foreign-owned companies would give
30



1 foreigners an incentive to sell.

2 Ultimately almost all Canadian companies would be
3 owned by Canadian shareholders. When that time came, the
4 government would collect almost no corporation income tax.
5 Instead the corporation would distribute the extra profit
6 to their shareholders, and the government would derive
7 its revenue through the personal income tax. When that
8 time came, the main purpose of the corporation income
9 tax would be to encourage corporations to distribute
10 their earnings rather than accumulate large amounts of
11 capital.

12 The advantage of such a system are well described
13 in the Rowell-Sirois Commission report (1940):

14 "Corporate income taxes are not real income taxes.
15 They apply to Corporate net income at a flat rate, but
16 are not adjusted to the net income of the corporation
17 owners at either a uniform or graduated rate. And although
18 they are not a fixed charge on business, in the same way
19 that specific corporation taxes are, they penalize
20 investment in industry (particularly during a period of
21 successive rate increases) as compared with other forms
22 of investment, or hoarding. It is, of course, impossible
23 to calculate the amount by which diversion of investment,
24 increased business costs and elimination of marginal
25 enterprises reduce the national income, increase unemploy-
26 ment and weaken Canada's competitive power in internation-
27 al trade. But these consequences are regrettable since
28 every penny now raised by direct taxation on business
29 could be raised without any of these disadvantages by
30 properly adjusted taxation on business owners."



1 Amendment No. 3.

2 "Capital gains should be taxed in the same manner,
3 and at the same rate, as ordinary income."

4 This amendment helps complete the transformation
5 of the personal income tax into a consumer spending tax.

6 If capital gains could be spent without being
7 taxed, the government would lose part of its control over
8 the rate of consumer spending.

9 A tax on capital gains has been opposed in the
10 past because of the alleged fear of discouraging invest-
11 ment. The other two amendments proposed here would
12 provide such a stimulus for investment, however, that
13 such fear would be groundless.

14 A tax on capital gains has also been opposed on
15 the grounds that it would necessitate more complicated
16 accounting. Other countries with a capital gains tax
17 have not experienced any inordinate difficulty in its
18 collection. In fact, by taxing capital gains and income
19 in the same way, many arguments over whether a given
20 profit is income or capital gain would be resolved.

21 Adjustments.

22 The three amendments proposed here will be adopted
23 sooner or later by every country, because:

- 24 (a) they will be highly acceptable to taxpayers
25 and the electorate, and
26 (b) they bestow a competitive advantage, so that
27 the country which adopts them first will
28 become more prosperous than its competitors.

29 There is no reason why these amendments should not
30



1 be adopted in Canada immediately.

2 The second amendment, when adopted, would tend to
3 reduce the revenue from the corporation income tax. This
4 could be partly offset by dropping the dividend tax credit
5 and partly by raising the rate of corporation income tax.

6 The third amendment would give the government
7 additional revenue.

8 The first amendment, converting the personal
9 income tax to a consumer spending tax, would have some
10 very complex effects on the economy, almost all of them
11 beneficial, and none of them seriously harmful.

12 It would restrict, to a certain extent, the sale
13 of luxury goods in Canada. People who are accustomed to
14 spending all their earnings would have a strong incentive
15 to save and invest part of their income. This would
16 require some shift of prospective effort from luxuries to
17 more utilitarian ends.

18 If consumers continued to spend at the same rate
19 as they do today, the government's revenue from the con-
20 sumer spending tax would be much higher because of the
21 higher rate of taxation.

22 Let us consider, however, what would happen if the
23 consumer spending tax was such a strong stimulus to saving
24 that nobody exceeded his spending quota, and nobody had
25 to pay any consumer spending tax.

26 In that case, many goods and services now bought
27 by consumers would remain unsold. The amount of invest-
28 ment money would increase, and interest rates would fall.
29 Industrial expansion would be encouraged by the low



1 interest rates, and production of necessities and indus-
2 trial machinery would be more profitable.

3 In 1961, Canadians spent about \$28 million for
4 consumer goods and services, or about \$1500 per year and
5 if nobody exceeded his quota, many goods and services
6 now bought by Canadian consumers would have to be sold
7 elsewhere, or remain unsold.

8 Many consumers do not have \$1500 a year to spend.
9 Many pensioners and welfare cases have to live on \$700
10 or less per year. The average annual wage in Canada is
11 about \$4500 per year, and a man who has to support a
12 wife and four children, say, on that wage will be able
13 to spend only one-sixth of \$4500, or \$750, annually for
14 each of the consumers in his family. Unless other con-
15 sumers spend more than \$1500 annually, much of the nation's
16 output of consumer goods would have to be exported or
17 remain unsold.

18 Canadian producers would thus be compelled to
19 find larger foreign markets for their goods. Canadian
20 exports and sales to tourists would be pursued more
21 aggressively to make up for the reduction of the home
22 market.

23 At the same time, Canadian imports of foreign-
24 made consumer goods and Canadian travel abroad would be
25 greatly curtailed by the tax on consumer spending.

26 These effects would combine to strengthen the
27 Canadian dollar. The dollar, now set at 92 cents American,
28 would tend to rise. Such a rise should be avoided,
29 however, because the discount on the Canadian dollar is
30



1 proving very helpful to Canadian export and tourist trade.
2 With such a large surplus of Canadian consumer goods to
3 be sold abroad, it would in fact be essential that the
4 Canadian dollar remain at its present value, or even
5 drop to 90 cents American.

6 To maintain the discount on the Canadian dollar
7 in the face of such a favourable balance of trade,
8 Canadian investment funds should flow outward. Part of
9 this investment would be capital spent for business
10 expansion in Canada. An even larger part would be for
11 the re-purchase by Canadians of Canadian securities owned
12 by foreigners. At the same time, the flow of investment
13 money into Canada should be reduced. All these results
14 could be achieved by lowering the rate of interest in
15 Canada to the point where foreign investment was not
16 attracted.

17 The consumer spending tax would thus make it
18 necessary for interest rates in Canada to be lowered, and
19 at the same time would make it possible for interest
20 rates to be lowered. The money which consumers would
21 have spent on consumer goods would instead be invested
22 in our own industry; foreigners would be encouraged
23 to buy our consumer goods and to relinquish their hold
24 on our industries. This is the true meaning of an
25 "austerity program".

26 Eventually a stage would be reached where almost
27 all Canadian industry was owned by Canadians. At that
28 time, the value of the Canadian dollar would rise, and
29 it would be more difficult to sell our goods abroad. To
30



1 compensate for this lack of foreign sales, it would be
2 necessary to raise the consumer spending quota so that
3 Canadian consumers would be able to purchase our excess
4 production.

5 Meanwhile how would government finance be affected?

6 Under our assumption that every consumer stayed
7 within his quota so as to avoid paying the spending tax,
8 government revenue from this tax would drop to nil. How
9 would government then meet its revenue needs?

10 We have assumed that the consumer spending tax
11 induced Canadians to spend only \$18 billion for consumer
12 goods instead of \$28 billion. This means that they would
13 have an extra \$10 billion a year to invest over and
14 above what they are now investing. Perhaps \$3 billion of
15 this might be spent for the purchase of foreign-owned
16 securities in Canada, \$3 billion might be spent for
17 construction and plant expansion in Canada; but there
18 would still remain \$4 billion for investment. The govern-
19 ment could require that this be invested in government
20 bonds. Thus instead of the government receiving \$2
21 billion in income tax, it would receive \$4 billion by
22 way of investment. Although the national debt increased,
23 it would not be a debt that Canadians owed to foreigners,
24 but a debt that Canadians owed to themselves.

25 The government, in short, would receive more
26 money if nobody paid the consumer spending tax than it
27 does now through the income tax. With this extra money,
28 the government could afford to reduce its sales and
29 excise taxes with further benefit to the economy. It
30 could negotiate with the provinces to have provincial



1 sales taxes eliminated. It could negotiate with foreign
2 governments for mutual reduction or elimination of tariffs.
3 Moreover, with each of these tax reductions Canadian
4 incomes would rise and the amount of money available for
5 investment in Canadian government bonds would increase
6 faster than taxes were lowered.

7 But what about the interest charges on this debt?

8 People would invest in government bonds to avoid
9 taxation even though the interest rate on government bonds
10 dropped to one or two percent. There are only so many
11 investment opportunities in Canada. Each year the amount
12 of money available for investment would increase. The
13 tax exemption would only be allowed on Canadian invest-
14 ments. After all foreign-held Canadian investments had
15 been bought back, Canadians would have so much invest-
16 ment money left over that they would have to invest in
17 government bonds even if the bonds paid no interest.

18 How can this government debt be paid off?

19 It does not have to be paid off. It is a captive
20 debt. People can only withdraw their money at a certain
21 rate; if they withdraw more rapidly than the quota
22 allows, they must pay a tax. As one man withdraws his
23 savings to spend them, another man must buy more bonds
24 in order to escape taxation.

25 Many of the functions now carried out at govern-
26 ment expense would be carried out by private individuals
27 if they could withdraw their registered savings to do so.
28 Other calls for government assistance would be reduced
29 as people had less need for welfare payments.



1 income all dividends paid to Canadian shareholders.

2 3. Capital gains should be taxed in the same
3 manner, and at the same rate, as ordinary income.

4 Adoption of these amendments would allow a sharp
5 increase in the rate of taxation with resultant benefit
6 to the economy.

7 Acknowledgments.

8 I am indebted to my wife for her valuable sug-
9 gestions and assistance.

10 Quotations have been taken liberally from a
11 book by this author, Are Taxes Necessary? (1958).

12 Dr. Edward F. Weir,
13 New Westminster, B.C.
14 August 3, 1963.
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

VANCOUVER

B. C.

VOLUME No.:

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BRIEF

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Representations Submitted by

Jas. A. Smith,
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New Westminster, B.C.

to the
ROYAL COMMISSION ON TAXATION
Canada

This submission is tendered by J.A. Smith,
senior partner of Smith-Reed Printers, which firm carries
on business at 521 Agnes Street, City of New Westminster,
B.C.

The personnel consists of five permanent
employees and both partners produce some of the material
as time is available to them.

The plant has been in operation 33 years.

Fine paper is processed by letter-press and
lithographic methods. A considerable amount of bindery
work is also done.

The following pages I hope will illustrate not
only the need for tax reduction related to small business
but also a great urgency for reform in the application
and method of collection for those who are required to
collect trust funds on behalf of our Governments.

Possibly I have not followed parliamentary
procedure but the statements made herein are sincere and
in the belief that the criticisms may be constructive.

It is hoped that this Commission will accept at
least some of the suggestions for reform as a down-to-
earth appeal for relief for many people who are known as
"small operators" of wholly Canadian-owned businesses.



1 Summary:

2 1) On March 17, 1961, Mr. J.E. Coyne made the
3 following statement:

4 "The fundamental question which we must decide
5 one way or the other for ourselves, is whether
6 we are prepared as a nation to live by our own
7 exertions, to save out of income what we think
8 we need for future growth and development, and
9 to finance and control our own development to
10 such a degree that the Canadian interest in
11 Canadian industry shall in future increase,
12 instead of continuing to decrease."

13 2) It is indeed unfortunate that some of us
14 engaged in secondary industry have so little control over
15 our own destiny. Year after year we experience a new tax
16 or an increase in an old one. Three distinct governments
17 keep clawing at us for more and more money - some of them
18 knowing or caring little what we are paying to the others.

19 3) If, during the next twelve years, taxes
20 increase as they have in the past twelve, there can be
21 no stability in business. And without stability and
22 incentive to reinvest earnings, secondary industry will
23 have a bleak outlook.

24 4) If any surplus funds were accumulated, they
25 could better be invested in Government ~~5 1/2~~ Parity Bonds,
26 or mutual funds, without the uncertainty of expanding a
27 small business with a meagre profit (if any) after taxes.

28 5) If those people who attempt to run our public
29 affairs cannot assess what is needed to inspire confidence
30 in Canada's future, perhaps they could enquire from



1 countries which appear to be thriving by their industry.
2 6) People, such as ourselves in the printing trade,
3 are weary of government interference in our business
4 caused by our too many tax collecting divisions.
5 7) I trust that this Commission will point to our
6 Governments the need for consolidation and simplification
7 of taxes, so that the physical and financial burden of
8 tax collection by industry will not remain so onerous.

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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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1 Tariff Protection of Fine Papers:

2 1) In 1952 forty-four companies which manufactured
3 and distributed fine paper in Canada were accused of
4 operating an illegal price fixing combine. Many pleaded
5 guilty to the charges and paid fines which were nominal.

6 2) Mr. MacDonald of the Combines Investigation
7 stated that the combines had existed "in one way or
8 another for the last 17 years."

9 3) A few years later 17 manufacturers of paper
10 were found guilty of fixing prices and fined from
11 \$8,000.00 to \$25,000.00. A number of these firms were
12 second offenders.

13 4) After the second conviction I complained to the
14 Federal Government that the fines in both instances
15 could result in no penalty whatever as the companies
16 concerned had a simple method of recovery by raising
17 prices again on their products, which at that time had
18 become a habit.

19 5) At the conclusion of the first trial, Mr.
20 MacDonald of the Combines Investigation, recommended
21 that fine paper manufacturers be controlled under regula-
22 tions similar to those imposed by Public Utility
23 Commissions, or, in the alternative, that duty on fine
24 paper imported into Canada be reduced or eliminated "as
25 one way of infusing new competition into the industry."

26 6) The present duty on imported fine paper is 22½%
27 plus 5 to 10% austerity surcharge.

28 7) Neither of his recommendations were adopted.

29 8) One fine paper mill located near New Westminster
30 recently came into production but the eastern manufacturers



1 met the prices of the new mill to the fraction of a cent
2 per pound, in spite of some 3,000 miles of freight
3 charges. And not surprisingly, the price changes from
4 various sources arrived almost simultaneously.

5 9) Prices on standard brands of fine paper are at
6 present identical as to respective grades although slight
7 variations in quality may exist.

8 10) Surely some companies which have twice broken
9 the laws of Canada do not merit high protection. I would
10 therefore suggest that this Commission endorse the
11 recommendations of Mr. MacDonald and ask for their
12 implementation.



EXCISE DEPARTMENT - SALES TAX DIVISION:

1) During thirty-three years in business we have encountered far too much unnecessary trouble caused by the Sales Tax Division. We have suffered from both wrong and indefinite decisions on their part.

2) We asked the Vancouver Office if goods sold to the Dyking Commissioner at New Westminster were taxable - they said they were not taxable. Ottawa office reversed this decision.

3) We asked the Vancouver Office if ingredient tags attached to bags of cattle and poultry feed were taxable - they said they were taxable. Ottawa reversed this decision.

4) We asked the Vancouver office if printing on fruit tree tags was taxable. They quoted an Ottawa ruling which said that if the tag was attached to the tree itself, it was taxable but if the tag was attached to any wrapper of the tree it was not taxable. Unfortunately time was not available to find out what the nurseryman did with 17,000 fruit tree tags.

5) The regulations, past and present, state that a person or corporation may print for its own use material not in excess of \$3,000.00 in any one year, tax exempt. But some person in the Excise Department ruled that tax collecting printers were not entitled to this exemption.

6) From time to time during this 30 years of discrimination we asked for an explanation. One answer we received was positively stupid. But each time an audit was made of our books by an Excise man, we were



1 assessed and taxed for amounts under \$3,000.00. But in
2 spite of our protestations this arrogant discrimination
3 persisted against all licensed printers in Canada.

4 7) Upon receiving another assessment of some
5 \$48.00, we sought legal advice and we were told that we
6 were not liable for the amount claimed. We so informed
7 the Department but they continued to bill us adding
8 penalty and interest. In a mass of further correspondence
9 I asked, requested and challenged them to take the matter
10 to court, pointing out that as citizens we had an inherent
11 right to defend ourselves. This they refused to do and
12 continued billing us.

13 8) By a last effort, dated August 6th, 1959, I
14 was fortunate in getting through to the Minister of
15 National Revenue. In a letter dated September 1, 1959,
16 he stated in part - "it was realized that the regulations
17 were, perhaps, not as clear as they might have been and
18 we were impressed with your argument we propose
19 to recommend remission by Order-in-Council of the Sales
20 Tax which has been in dispute."

21 9) A copy of the Order-in-Council was duly
22 received and thirty years of illegal taxation against
23 licensed printers had ended.

24 10) Unfortunately a situation still survives which
25 is detrimental to licensed printers. Corporations other
26 than printers, may produce printed matter on their own
27 equipment up to an amount of \$3,000.00 a year, tax free.
28 In other words, some corporations are bonused up to
29 \$330.00 a year if they do not purchase material from
30 licensed printers. I am informed that there are some



1 500 privately-operated printing machines in Western
2 Canada. The tax loss to the Federal Government is
3 considerable by this regulation as well as the loss of
4 work to licensed printers.

5 11) For thirty years we paid an annual licence fee
6 of \$2.00 so that we would be authorized to collect Sales
7 Tax for another year, without compensation. I pointed
8 out to the Hon. Minister of National Revenue that in the
9 days of bondage the slave did not have to pay the master
10 an annual fee so that he might work for nothing. The
11 Hon. Minister replied immediately stating that the fee
12 was forthwith cancelled. Mr. Glassco reports that some
13 government departments are operating thirty years behind
14 the times - his estimate is much too modest.

15 12) An excise man told a printer in New Westminster
16 that if a printer purchased post office envelopes on
17 behalf of a customer and printed a return address in the
18 corner, that the Federal Sales Tax would apply not only
19 to the printing, but also to the cost of the envelopes -
20 in spite of the fact that the Regulations require the
21 Post Office to pay the Sales Tax on the envelopes when
22 they receive them from the manufacturer.

23 13) During the many long years we have collected
24 and remitted Sales Tax we have never been late with our
25 remittances. But in spite of our record for promptness
26 we recently received a smelly little letter threatening
27 us with penalty and interest if at any time we became
28 delinquent. In our business we do not find it good
29 public relations to threaten our customers with judgments
30 and warrants of execution. It is to be regretted that



1 the Excise people assume their tax collecting contacts
2 are all dead-beats.

3 14) We could cite other occurrences which have
4 arisen in the past which would definitely indicate a lack
5 of proper direction and initiative from the head office.
6 If the regulations were reasonably complete we could
7 possibly make a better interpretation than some of the
8 hired men in Government Bureaux - at least, in the
9 instances related herein, we couldn't have done worse.

10 15) It might be feasible to place a tax on
11 printing papers at the paper mills and thus unburden
12 printers, who sell almost entirely to the consumer, of
13 this horrible chore of tax collecting.

14 16) In any event, I would propose that the whole
15 system be overhauled. The Sales Tax Division should be
16 divorced from the Excise people - and the regulations
17 should be written in such a manner as to be a complete
18 guide to all concerned.

19 17) I would further suggest that all personnel of
20 the Sales Tax Division who in any way deal with the
21 public, be screened by an expert as to their aptitude in
22 public relations.

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1 Extension of Tax Free Period for Casual Labour:

2 1) The Unemployment Insurance regulations exempt
3 casual labour for a period of three days from taxation.

4 2) I submit this 'tax free' period should be
5 extended to two weeks because:

6 1. It is impossible to assess the ability of
7 a prospective employee in 3 days.

8 2. Not infrequently we have employed a person
9 as casual labour when the work available may
10 continue for 5 to 6 days. At the end of the
11 three-day period it therefore becomes necessary
12 to skip a day or employ another person, at
13 considerable inconvenience.

14 3) A change in these regulations would undoubtedly
15 enure to the benefit of those who are accustomed to taking
16 odd jobs.

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1 Wasted Effort:

2 1) This year the Post Office was required to
3 collect B.C. Sales Tax on the sale of stamped post
4 office envelopes, based on the value of the envelope,
5 but not including postage.

6 2) To obtain envelopes from the Post Office for
7 resale we are now required to produce a certificate of
8 exemption from the B.C. Tax. Otherwise it would be
9 necessary for us, and others, to apy 5% tax on the value
10 of the envelopes.

11 3) On reselling the envelopes, on which we make no
12 profit whatever, we are required to charge and process
13 B.C. Sales Tax.

14 4) The tax involved in the sale of 500 of these
15 envelopes is 20¢.

16 5) The Post Office, the printer and the B.C. Tax
17 Commission are all involved in accounting for this stupen-
18 dous revenue.

19 6) I believe that the citizens of Canada deserve
20 to be relieved from a burden like this which is thrust on
21 them by a government suffering from frenzied finance.

22 7) If people in business were to expend \$1.00 in
23 labour for the sake of making 20¢ profit they could
24 justifiably be branded bad operators.

25 8) I trust that your Commission will recommend
26 that the Post Office Department be delivered from a part
27 in this undertaking.

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1 Local Cashier:

2 1) A great benefit would enure to the benefit of
3 the public if Government Cashiers were established in
4 populated centres.

5 2) A business firm could then pay its several
6 Federal Taxes at one place and get a receipt immediately
7 - instead of mailing remittances all over hell's half
8 acre.

9 3) The many government departments don't seem to
10 know how to unify their efforts but it's about time they
11 did.

12 4) No additional cost would be required to operate
13 such receiving depots, as the office could be housed in a
14 Federal Building and staffed by personnel who are
15 presently uselessly employed, as reported in the Glassco
16 report.

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Reduction of Income and Corporation Taxes:

1) According to press reports "top brass" of Canadian industry met the Honourable Minister of Trade in the summer of 1962 to impress on the Government the need for lower corporation and personal taxes.

2) For the past several years the Canadian Chamber of Commerce has made the same plea without result, although it has been definitely proven that high taxes do not reduce unemployment.

3) But on we go year after year listening to the same old cliché about labour and industry pricing themselves 'out of the market.' While at the same time we know by evidence supplied by the Glassco report that untold millions of dollars of tax monies are wasted by the very people who proffer such advice. All of which adds up to that old adage about people who live in glass houses.

4) If "top brass" are suffering from over-taxation it is indeed sad to think how much the small operator is suffering. The large plant can to some extent apportion excessive taxation by producing large quantities of the same unit of work - but the little fellow has to be satisfied with short runs and continual "change-overs" - which are the most costly operation in any industry.

5) During the past eight years two large printing shops in Vancouver have liquidated voluntarily, one large firm in Victoria which had been in business 50 years, is bankrupt, and many other print shops in Vancouver, of varying importance, have gone to the dogs.

6) At the meeting above mentioned the press



1 reported that Hon. Mr. Nowlan, referring to the austerity
2 programme, stated there was a possibility of providing
3 more ample credit for small business - defined as a
4 company having an annual gross turn-over of less than
5 \$500,000.00.

6 7) I would like to point out to this Commission,
7 most emphatically, that if people in business were not
8 taxed as heavily they could quite possibly stand on
9 their own feet without handouts from some loan company.

10 8) Surely it does not enhance the economic struc-
11 ture of Canadian business to be forever in debt. We
12 would like to be able to keep a little more of the money
13 we earn, thereby permitting us to have a little more
14 control over our own destiny.

15 9) I sincerely trust this Commission will see fit
16 to make recommendations which would encourage continuation
17 and development of wholly Canadian-owned "small business"
18 without the penalty of interest charges.

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1 Unemployment Insurance Tax:

2 1) The system used in collection of this tax is
3 without a doubt the most costly and bothersome of all
4 our burdens.

5 2) The Glassco Commission reports that a million
6 dollars a year could be saved by the elimination of
7 revenue stamps on cigarette packages. And a further
8 huge sum could be saved by the elimination of the need
9 for printing millions of little perforated stamps for
10 Unemployment Insurance. And hundreds of hours of labour
11 could be put to a useful purpose by their elimination,
12 which labour is presently necessary in pasting these
13 miserable tokens in Unemployment Insurance Books. And
14 added to the saving would be the time now spent by the
15 Post Office in their distribution and accounting.

16 3) The Workmen's Compensation Board of British
17 Columbia has a vastly superior system of collection.
18 They make an assessment on the payroll twice a year.

19 4) And further, the scale of their charges is
20 made to fit risks applicable to different businesses and
21 industries. On November 6, 1962, we were informed by an
22 auditor of the said Board that we would be entitled to
23 a rebate of approximately 25% of our contributions owing
24 to a decrease in claims from the printing industry.

25 5) I submit that plants like Smith-Reed Printers
26 who have records of continuous employment for periods of
27 13 to 20 years should not be required to contribute
28 insurance costs for short-term risks.

29 6) Fire and automobile insurance companies usually
30 base their rates on the apparent or proven risk. And



1 unless the Government adopts a form of rated risk the
2 meaning of the word 'Insurance' will have lost its
3 identity and the original intent of the scheme will have
4 become just another general tax.

5 7) From time to time we have been promised a
6 review of the whole matter so that deficiencies in the
7 application of insurance benefits might be discussed and
8 adjusted. I submit that there is apparent urgency before
9 the insurance fund collapses.

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1 Taxes on Small Purchases:

2 1) The complexity of taxation in Canada is a
3 definite hinderance and a costly item to business.

4 2) To illustrate I would cite work involved on a
5 sale amounting to 75¢. -

6 The goods are delivered to the customer.

7 A numbered invoice is made in duplicate.

8 The Federal Tax is added to the amount of
9 sale.

10 The Provincial Sales Tax is compounded and
11 added thereon.

12 Both sales taxes are recorded separately in
13 the sales tax record book.

14 Exemptions (if any) are recorded in the sales
15 tax record book and a certificate of exemption
16 procured from the customer.

17 The tax record book is balanced monthly by an
18 auditor at our expense.

19 Two sets of sales tax returns are made out in
20 duplicate.

21 The returns, together with cheques, are mailed
22 to two remote addresses.

23 It is therefore evident from the above example
24 that we lost money on the above transaction owing to a
25 tax complex.

26 3) For the work involved regarding taxes, we get
27 3% commission from the Provincial Government but nothing
28 from the Federal Government.

29 4) It is indeed unfortunate that retail businesses
30 such as ours are blighted with two kinds of sales taxes



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1 and the relative work in accounting for same.

2 5) As well as operating a print shop we are
3 required to run a tax factory.

4 6) A recommendation for relief is requested. ✓

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1 Collection of Taxes by Forced Labour:

2 1) The Bill of Rights proposed by the United
3 Nations at a conference in Paris, attended by the Hon.
4 Lester Pearson, contained a clause which would prohibit
5 conscription of labour for any purpose without compen-
6 sation. Member nations were requested to submit the
7 proposed law to their respective governments for consi-
8 deration and adoption.

9 2) The Canadian Government did not incorporate
10 this submission into its Bill of Rights. Had it done so,
11 thousands of Canadians would have had to be compensated
12 for the enormous task of collecting our too many taxes
13 and imposts. The lack of protection in this regard
14 leaves Canadian citizens open to injustices.

15 3) In the year 1957, our small plant employing
16 five people, was required to earn and pay to our respec-
17 tive governments \$16,530.51 in taxes. This amount did
18 not include many hidden taxes. Over \$9,000.00 of the
19 above amount represented two sales taxes, most of which
20 were recoverable, although the trusteeship of these
21 funds cost us dearly. We pay an outside accountant
22 \$500.00 a year for the sole purpose of keeping our taxes
23 in order and remitting. For our work we receive 3% from
24 the Provincial Government and no thanks whatever from the
25 Federal Government.

26 4) About six months ago CBC-TV produced a film
27 which illustrated an interview by one of their staff with
28 a merchant in East Germany. It was divulged that the
29 Government there took half of the annual profits for
30 taxes - after having bought and paid for a half interest



1 in the business.

2 5) Under the present Canadian system of taxation
3 there appears little incentive to perpetrate or expand a
4 small business if one considers the return on capital
5 investment and the work involved in tax collection.

6 6) Some firms receive subsidies, some people get
7 free professional advice, others get outright grants or
8 low interest loans. But all the small operator gets by
9 way of attention is a poke in the eye by way of more
10 taxes to collect and more taxes to pay.

11 7) To say that we spend too much time earning and
12 collecting government revenue is an understatement.

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1 Capital Gains Tax:

2 1) Huge fortunes have been made by speculators
3 and others, without tax, by taking a quick profit.

4 2) A capital gains tax would vary with economic
5 conditions but it would have the effect of stopping some
6 hit and run investors who contribute little or nothing
7 in taxes. Some stabilization in the economy would
8 inevitably result.

9 3) On September 17, 1962, the Vancouver Daily
10 Province reported that a group of people bought shares
11 in a company at eight cents a share before the public
12 got the chance to buy at \$12.00 a share.

13 4) The Vancouver Daily Province further reports:

14 "At the time the B.C. Securities Commission
15 report showed Ralph K. Farris, president of
16 the firm, formed in 1954 to provide Alberta
17 natural gas to northern Ontario towns, in-
18 vested \$300 on shares that later were worth
19 \$1,090,000.00."

20 "Northern Ontario gas stocks became valuable
21 after Ottawa decided to lend American pro-
22 moters \$80,000,000.00 to build a cross-Canada
23 natural gas pipeline."

24 5) Argus Securities Limited of Vancouver advertise:

25 "Canada is one of the few countries in the
26 world where millions of dollars can be made
27 in the stock market WITHOUT PAYING A CENT in
28 Capital Gains Taxes."

29 \$100.00 invested, in 1961, in Western Mines
30 would have made a tax-free profit of



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\$4,901.00."

6) A capital gains tax would slow down some of
this speculative financial fun and at the same time tend
to prevent over-capitalization of some companies.



1 Evasion of Corporation Taxes:

2 1) Some companies with large reserves at times
3 issue "rights" or "options" to purchase further shares in
4 the company, based on the proportion of shares presently
5 held.

6 2) These "options" are offered far below the
7 current market value of the shares previously issued.

8 3) If the "option" is not accepted it may be sold
9 to a broker and the transaction is, of course, capital
10 gain.

11 4) If corporation taxes were reduced there would
12 be an incentive for companies to pay larger dividends in
13 a respectable manner - taxable, of course.

14 5) Under the present system of stock dividends the
15 large stockholder becomes progressively rich and the
16 little fellow gets the crumbs; this situation particularly
17 applies to large companies which pay small dividends and
18 have more or less frequent stock splits.

19 6) It would seem reasonable to assume that a
20 re-adjustment of corporation tax laws would enure to the
21 benefit of small stock-holders as well as to the Govern-
22 ment.

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1 Taxes for Socialistic Deficits:

2 1) We have in Canada half-baked socialistic enter-
3 prises competing with private enterprise - and just how
4 fair is it for private tax-paying businesses to be
5 expected to provide funds for the operation of money-
6 losing government businesses?

7 2) CBC - competing with private radio and TV.
8 C.N.R. vs C.P.R.
9 T.C.A. vs C.P.A.

10 And to add confusion we find that the C.P.R.
11 and C.N.R. advertise in the same space, identical rates
12 to identical destinations. This act would, under some
13 circumstances, be a subject for investigation by the
14 government Combines Investigation. But as a government
15 agency is involved in rigging prices, both corporations
16 reach the status of sacred cows.

17 3) Restrictions are placed on C.P.A. to protect a
18 subsidized T.C.A.

19 4) In British Columbia privately operated tax--
20 paying ferry boats have been taken over; a huge power
21 complex has been acquired by the government, and in both
22 cases with a resulting loss to the Federal Government in
23 taxation.

24 5) Last year T.C.A. advertised overseas flights
25 on a U.S. television station beamed into Vancouver - while
26 at the same time CBC operated at a loss.

27 6) I suggest that a review of the usefulness of
28 government-operated enterprises should be made with a
29 view to partially or wholly eliminating some or all of
30 them.



1 7) If the acquisition of private business by the
2 government continues and these corporations become tax
3 free, the burden on the Canadian taxpayer will undoubtedly
4 increase - at least from a Federal standpoint.

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1 Taxation for Subsidies:

2 1) Years ago the dairy farmers howled for help to
3 support the price of butter. Perhaps in those dark days
4 a subsidy was warranted but the continuance of such help
5 now appears to be a lost cause.

6 2) Not only has the price support continued beyond
7 a reasonable period of expected recovery but it has
8 established margarine as a healthful food.

9 3) Another folly in this regard is the storing of
10 butter at taxpayers' expense. I submit that it would be
11 sound economics to give the surplus butter to publicly-
12 supported institutions such as old age homes, D.V.A.
13 hospitals, orphanages, etc. This act of charity would
14 save a great deal of money by lessening storage charges
15 and the risk of spoilage.

16 4) There are at least 102 professional agricultural
17 helpers in British Columbia, which province is not noted
18 particularly as an agricultural potential.

19 5) It would seem fitting that the Canadian public
20 be given a comprehensive report which would show how long
21 the tax-payers may be expected to provide funds to assist
22 those who grow too much wheat and produce too much expen-
23 sive butter. Or, if indeed that industry needs so much
24 help, why is it they cannot contribute at least in part
25 to some of the expense?

26 - - - - -

27 6) On October 10, 1962, the Federal Government
28 donated \$5½ million to the Government of B.C. to aid in
29 shipbuilding.

30 7) On November 24, 1962, a news item reported that



1 shipyards in B.C. are complaining about late payments of
2 their 40% subsidy and some state it may be necessary to
3 lay off employees unless money is received.

4 8) And yet, according to a reliable source, one
5 shipyard company operating in B.C. on December 15, 1961,
6 declared a dividend of over \$5,000,000.00.

7 9) I submit that an investigation should be made
8 to ascertain why some companies are so prosperous and
9 others are so poor as to need public alms to stay afloat.

10 10) There are some Canadians who would prefer not
11 to accept subsidies and neither do they want to be
12 obligated to a loan company, government sponsored or other-
13 wise. It would seem unfair that those of us who still
14 have our heads above water should pay so much taxes that
15 the Minister of Finance is now in a position to lend the
16 money back to us at interest. Surely a general reduction
17 in income tax would be a more equitable distribution.

18 11) For several years we used the term "free enter-
19 prise" to designate our system of business but gradually
20 the word "free" was dissolved into "private enterprise."
21 And now we find that little by little the term "private"
22 is being lost sight of as large tax-paying corporations
23 are absorbed by governments, with a resulting loss in
24 Federal tax revenue.

25 12) Instead of maintaining the high level of taxa-
26 tion on industry, I humbly submit that some of the load
27 be transferred to those who have acquired professional
28 status at considerable public expense.

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1 Tax Prophecies:

2 1) There is one thing above all else which under-
3 mines the confidence of Canadians in their type of
4 government and that occurs when a politician makes state-
5 ments about taxation or the general condition of the
6 state which are off-colour.

7 "You never had it so good."

8 "Canadian finances are sound."

9 "Taxes will be reduced."

10 "This or that tax is a temporary measure."

11 "A million new jobs in five years."

12 "The Province is free of debt."

13 "Nobody will suffer because of unemployment."

14 2) Everybody suffers because of unemployment. The
15 person presently employed provides, through taxation, the
16 necessities of life for the unemployed people. And the
17 person who desires work and cannot find it, suffers the
18 indignity of accepting charity.

19 3) In a campaign speech the man who made the state-
20 ment about unemployment stated that taxes would be
21 reduced. One of the first acts of his government was to
22 increase the Federal Sales Tax from 10% to 11%.

23 4) We hear that the Government of B.C. is free of
24 debt and the statement has been repeated so many times
25 some persons are beginning to believe it.

26 5) After the last session the B.C. Government
27 published a statement that "no new taxes had been added"
28 -- but old taxes were increased, notably the gasoline tax
29 from 10 to 13¢ a gallon.

30 6) Another political hoax is the B.C. home-owners



1 grant. If one compares present-day tax rate with those
2 of twelve years ago the home-owners grant becomes as
3 genuine as a soap coupon.

4 7) I trust it may be within the powers of this
5 Commission to report that great damage is done to
6 Canadian morale and political prestige by badly consi-
7 dered statements made for political gain.

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1 SALES TAXES ON FREIGHT: Federal Exemptions:

2 B.C. Implementation:

3 1) In the Regulations, issued July, 1959, concern-
4 ing Sales Tax (Excise Tax Act), under the heading
5 "Transportation" it seems to be definitely expressed
6 that there shall be no sales tax against freight charges
7 on goods shipped by manufacturers or processors.

8 2) In consideration of vast sums spent to subsi-
9 dize rail freight by the Federal Government this exemption
10 of Sales Tax is appropriate to the needs of shippers
11 throughout Canada.

12 3) Pursuant to Bill 36, 1953, the Government of
13 British Columbia enacts to the contrary of the intent of
14 the Federal Regulations. The printed explanation of the
15 Amendment (Bill 36, 1953) reads as follows:

16 "This amendment leaves no doubt that the tax
17 (B.C. Sales Tax) is imposed on the price laid
18 down in British Columbia, which includes the
19 charges for excise, customs, transportation,
20 etc."

21 4) It would therefore appear evident that the
22 Province of British Columbia is imposing a tax contrary
23 to the principles expressed in para. 1) above.

24 5) Example: If we, as printers in British Columbia,
25 receive equipment shipped from Toronto, we are required
26 to pay Provincial Sales Taxes on freight as well as the
27 material.

28 6) It would appear that there is a conflict of
29 principle involved.

30 7) And a question of authority arises - has the



1 Government of British Columbia the right to increase
2 inter-provincial freight rates by adding 5¢ to the
3 charges - or are inter-provincial freight rates set by a
4 Board of the Federal Government?

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Redundant Provincial Tax on Hospitals:

1) The Government of the Province of British Columbia requires suppliers of materials, other than food, to charge the hospitals 5% Provincial Sales Tax.

2) The operating costs of hospitals in British Columbia are wholly derived from the Provincial Sales Tax, except for a \$1.00 contributory fee per day per patient.

3) So - a printer in B.C. is required to charge the hospitals 5% tax on purchases - remit to the B.C. Government at the end of the month - and next month the Government gives the tax back to the hospitals.

4) All of which reminds one of the father who gave his son 25¢ to go to bed and charged him 25¢ for breakfast the next morning.



1 Provincial Machinery Tax:

2 1) In British Columbia if a landlord rents
3 property to an industry he, the landlord, is assessed
4 and taxed for the occupant's machinery.

5 2) The British North America Act states that
6 Provinces may levy direct taxes for the purposes of
7 Provincial Revenue.

8 3) The definition of a 'Direct Tax' as accepted
9 by the Privy Council of England is:

10 "A direct tax is one which is demanded from
11 the very persons who it is intended or desired
12 should pay it."

13 4) It would seem that the B.C. legislation in
14 this regard, however it may be twisted or worded, is
15 contrary to the basic meaning of the British North
16 America Act.

17 5) And further, it can in no way be morally right
18 to expect a person to pay taxes on things or materials
19 in which he has no title or interest.

20 6) The real property tax notices in British
21 Columbia show the assessment of tenant's machinery.

22 7) If this kind of law is accepted as a precedent
23 it could be dangerous.

24 8) I trust this Commission will investigate this
25 legislation which appears to be in conflict with the
26 British North America Act.

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1 Provincial Sales Taxes:

2 1) The British North America Act, para. 121,
3 states:

4 "All articles of the growth, produce or
5 manufacture of any one of the Provinces
6 shall, from and after the Union, be
7 admitted free into each of the other
8 Provinces."

9 2) But in spite of this bit of constitutional law,
10 provinces which have sales taxes demand a fee be paid on
11 bringing goods into the Province.

12 3) The Act in B.C. has been amended a few times to
13 give some sort of respectability to the legislation but
14 the fact remains we still have to pay a duty (or tax) on
15 importing goods into B.C. from other Provinces.

16 4) Although Provinces are limited on taxation
17 matters to their own boundaries by the B.N.A. Act, we
18 have at times had suppliers in Toronto billing us for
19 B.C. Sales Tax. It would perhaps be proper to describe
20 this method of taxation as legalized blackmail.

21 5) In the summer of 1962 there was a conference of
22 Provincial Premiers in Victoria at which meeting great
23 lamenting was heard about the leaks in Provincial Sales
24 Taxes - and there are many.

25 6) Some of our regulations which impose taxes are
26 a disgrace to the memory of Sir John A. MacDonald who so
27 much wanted a united Canada instead of a handful of tax
28 collecting principalities.

29 7) If the Provinces cannot do without local Sales
30 Taxes I submit there is only one proper solution to a



1 leak-proof system of collection and that is by amal-
2 gamating the Provincial Tax with the Federal Tax. The
3 jurisdictions would be enlarged and the taint of indirect
4 taxation would be removed.

5 8) We have experienced the amalgamation of Federal
6 and Provincial Income Taxes with a great saving in
7 administration costs and surely a unification of other
8 taxes would save costs, both to the licensee and the
9 government.

10 9) The rate of the unified tax as at present
11 computed would be 17% as the B.C. Tax is a compounded
12 one. And further consideration would have to be given
13 to the fact that the B.C. Tax is a continuing one - that
14 is, the tax continues to be collected on all goods until
15 the material is consumed or finally disposed of.

16 10) So, after taking the preceding circumstances
17 into account we must also realize that both taxes have
18 a habit of increasing. A formula would of necessity
19 have to be worked out to take into consideration future
20 eventualities and it might not be out of proportion to
21 start the new combined tax at 30%, which would provide
22 for a small compensation for collection fees.

23 11) From time to time a renewal of the agreement
24 would be necessary and as has been experienced with the
25 combined Income Tax, adjustments could be made.

26 12) The Glassco Report states that enormous savings
27 could be achieved in administration and I submit the
28 public should receive some benefit from the elimination
29 of at least one tax collecting authority.

30 13) And again, if our government affairs were
properly operated it might be possible to entirely
eliminate one of these taxes.



1 Real Property Tax in British Columbia:

2 1) Municipalities are issued a formula for assess-
3 ment on real property by the Provincial Government. This
4 formula has changed a number of times since 1953 and as
5 a result there seems no certainty from time to time what
6 taxes may be imposed.

7 2) Municipalities press the Provincial Government
8 for a greater share of Provincial revenue and to keep the
9 municipalities content, the Provincial Government changes
10 the assessment formula; always upward, of course.

11 3) Some assessments have become so queer that in
12 1962 the Corporation of Surrey appealed the whole assess-
13 ment roll.

14 4) In 1960, in the same municipality, the assessor
15 raised his valuation on a 50-year old house by 88%. On
16 appeal he admitted he had never been inside the building.
17 This identical type of sloppy administration occurred on
18 the same premises in 1950.

19 5) Municipal taxes were once a distinct right of
20 the Municipalities but now the assessment formula is a
21 dictated one.

22 6) Municipalities are gradually losing their
23 autonomy in this and other matters and particularly with
24 regard to hospitals and schools.

25 7) The trend in British Columbia has been to
26 diminish the powers of local governments, which, I submit,
27 is a definite step away from what little is left of true
28 democracy.

29 8) I submit this depreciation of municipal
30 authority should receive the consideration and



1 recommendations of this Commission.

2 9) And further, with respect to municipal real
3 property taxation, I believe a moratorium against
4 further tax increases should be enforced to protect
5 senior citizens who have retired on fixed incomes. It
6 is indeed a sickening thing to have retired and later to
7 realize that through circumstances beyond your control
8 your income becomes insufficient to buy food and maintain
9 a modest dwelling. As Canadians we should be ashamed of
10 such depreciation of living standards.



1 Taxation Trend:

2 1) There is a trend in Canada, particularly in
3 British Columbia, to continue to levy more taxes on
4 industry, regardless of results.

5 2) The Vancouver Sun, on October 3, 1962, reported
6 that Dr. P.L. McGeer of the University of B.C. advocated
7 that industry provide money through more taxation for
8 research.

9 3) The reason he proposed more research was to
10 provide jobs for University Graduates. He stated that
11 in the past 11 years 43,000 skilled and technical and
12 professional people had left Canada for the U.S.

13 4) And again - some years ago I complained to the
14 Government of British Columbia about additional taxes
15 placed on industry, pointing out at that time there were
16 other people in British Columbia who could well afford to
17 pay special taxes, other than people in industry.

18 5) I received a reply from Hon. R.W. Bonner, Q.C.,
19 who at that time was acting Minister of Education. In
20 reply he stated - "The whole problem, of course, is
21 simply that of obtaining sufficient tax dollars to meet
22 the demands upon public monies."

23 6) It apparently had never occurred to him that
24 lawyers were in the highest income group in Canada and
25 could well have afforded extra taxes.

26 7) The particular tax I complain of in this
27 instance was a tax directed against the owners of
28 machinery in B.C. And what I pointed out at that time
29 was that as the tax was for educational purposes it
30 should be borne by those who derive the greatest benefit



1 from educational taxes, namely the professional people who
2 acquire the benefits of costly senior education.

3 8) However, machinery owners, who employ more people
4 than professional people, are stuck with a tax which
5 should have been levied in another direction.

6 9) If industry is to continue and expand in Canada,
7 and thereby employ more people, I trust this Commission
8 will recommend that industry be encouraged, rather than
9 blighted with additional taxes.

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1 Municipal Money Plebiscites:

2 1) In British Columbia we are at times asked to
3 vote on Municipal Money By-Laws, particularly as to the
4 raising of money for school construction.

5 2) A distinct majority is required to approve the
6 By-Law but unfortunately as few as 8% of the total
7 registered vote may be sufficient for the purpose.

8 3) The apathy of some people as to their voting
9 rights is astounding.

10 4) It is my humble opinion that people who are
11 entitled to vote should be required to express their
12 opinions more definitely.

13 5) I would therefore suggest that regulations be
14 adopted to provide that at least 50% of the total
15 available votes be recorded at a plebiscite for a money
16 By-Law before the referendum shall be declared valid.

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1 Conclusion:

2 It is indeed seldom that operators of small
3 businesses are afforded an opportunity to express their
4 views on government matters which reflect deeply into
5 their operations. In the foregoing pages I have
6 endeavoured to illustrate why there is a lack of interest
7 in expanding wholly Canadian-owned secondary industry.

8 At times we find we are regulated to the point
9 of exasperation by interpretation of regulations exempli-
10 fied in para. 4, page 2 (tax on fruit tree labels). The
11 label we printed can be used for no other purpose than
12 for which it is intended. It gives the name of a fruit
13 tree and illustrates the fruit.

14 And yet, some hired man in Ottawa has found a
15 way of splitting hairs on this relatively simple question.
16 Why in Heaven's name should a printer be concerned about
17 what a nurseryman does with a fruit tree tag?

18 In Canada we have a good form of government but
19 in many instances, by complexity and over-lapping, we are
20 making the worst possible use of our system.

21 I attended a meeting some years ago at which a
22 learned judge was present. The judge was asked what
23 could be done about complexity and obsolescence of laws.
24 He suggested that we scrap the law books and start over
25 again using the Ten Commandments as a basis.

26 It would seem imperative that consolidation and
27 simplification of tax laws be considered and implemented
28 where practical.

29 And further, that regulations respecting tax
30 laws be written in such a manner that bureaucrats will be



1 unable to resort to hair-splitting.

2 It is with sincere appreciation that I am
3 permitted to present this appeal for revision and relief
4 to the Royal Commission on Taxation.

5 Respectfully submitted,

6 December, 1962. (Jas. A. Smith)

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TORONTO, ONTARIO

GORDON BLAKE

Biographical Sketch

B.A. - McMaster University, 1936

M.A. - University of Toronto, 1946

Ph.D. - University of Toronto, 1954

Present Occupation - Professor of Economics and
Chairman of Department of
Economics - United College,
Winnipeg, Manitoba.

1958-61 - Dean of Arts and Science, United College.

1951-52 - Maurice Cody Research Fellow - University
of Toronto

Current Recipient of Canada Council Senior Research
Scholarship for Study in Europe

1958 - Secretary and Economist, Natural Gas
Distribution Enquiry Commission of
Greater Winnipeg

Author of "Customs Administration in Canada"
University of Toronto Press, 1957

Co-Author of "The Blake-Goldenberg Report" - A
Study of the Financing of the
Metropolitan Corporation of Greater
Winnipeg

Economic Consultant to Manitoba Public Utilities
Board

Presently engaged in a Study of the Construction
Industry in Manitoba for the Provincial
Government.

July 15, 1963



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SUMMARY OF

CORPORATIONS, CO-OPERATIVES

and the

PRINCIPLE OF EQUITY

A
SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

by

GORDON BLAKE, M.A. Ph.D.

Economic Consultant

to

The North-West Line Elevators Association

Winnipeg, Manitoba,
July 15, 1963.



SUMMARY

CORPORATIONS, CO-OPERATIVES

and the

PRINCIPLE OF EQUITY

1. Modern tax systems must be assessed in terms of revenue, economic effects, and equity. Of particular importance in the present state of Canadian economic development, in my view, is the manner in which taxes upon the income of business corporations affect these three conditions. It is my opinion that such taxes, while they are admittedly productive of revenue, have little to commend them in other terms, tending to hinder economic development, and consequently having a deleterious effect upon the ultimate base from which tax revenues may be drawn.

2. It is further contended that the corporation tax as presently applied and administered in Canada is not likely to be productive of equity, and a striking example of this is to be found, I think, in the discriminatory aspects of such taxation as between ordinary business corporations and co-operatives. The principal reason for the existence of this discrimination is the manner in which income generated by these two forms of enterprise is viewed for tax purposes, that is to say, in the manner in which deductions are allowed from income



1 2. In arriving at taxable income. I believe
2 that Section 75 of the Income Tax Act is seriously
3 at fault here, in that it provides co-operatives
4 with an undue and unwarranted advantage through
5 the allowance of patronage dividends, especially
6 those made on a non-cash basis, as deductions
7 from taxable income.

8 3. I believe that it is impossible to
9 sustain the distinctions which have been
10 artificially created between such patronage
11 dividends and any other allocation of income.
12 Both corporations and co-operatives are economic
13 institutions, seeking financial advantage for their
14 owners and members. To the extent therefore that
15 they produce net income, they should be accorded
16 identical tax treatment.

17 4. I recommend therefore that the Income
18 Tax Act be amended to remove all distinctions
19 between corporate and co-operative income for
20 tax purposes, in the interest of equity as well
21 as for reasons of revenue, and, certainly not
22 least, in order to preserve competition on a fair
23 and equal basis between these two forms of enter-
24 prise, as will result in the most efficient
25 allocation of resources.

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27
28 (Signed) Gordon Blake

29 Winnipeg, Manitoba,
30 July 15, 1963.



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CORPORATIONS, CO-OPERATIVES

and the

PRINCIPLE OF EQUITY

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GORDON BLAKE, M.A., Ph.D.

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1 1. Modern day systems of taxation must be
2 assessed with three aspects in mind:

3 (a) Revenue:

4 (b) Economic effects; and

5 (c) Equity.

6 Obviously the tax system must be sufficiently
7 productive to generate the revenues which
8 Government must have to meet its proper respons-
9 ibilities, and the revenue effects must always
10 be limiting factors when changes are proposed in
11 either rates or structure. At the same time,
12 it is widely recognized that in present day high
13 tax economies, the burden of taxation, and changes
14 in that burden, are likely to have important and
15 widespread effects on the size and composition
16 of the Gross National Product, which is perhaps
17 the most significant economic indicator which we
18 possess. Finally, those who create and administer
19 the tax structure must, in a democratic state,
20 constantly strive to produce and preserve equity
21 in the distribution of the tax burden.

22 2. It is gratifying to observe from the
23 terms of reference of this Royal Commission that
24 these three aspects are clearly intended to be
25 given full attention. Consequently it is with some
26 confidence of a sympathetic hearing that I make
27 the following submission concerning one particular
28 aspect of the present tax system, and attempt to
29 relate it to the three taxation objectives referred
30 to above. This particular aspect is that having to



1 2. do with the way in which the incomes of
2 business organizations are taxed, in particular
3 those having a corporate form.

4 3. A glance at income tax statistics indicates
5 immediately that the corporation income tax in
6 this country has been a good producer of revenue.
7 Being reasonably easy of collection, it also lends
8 itself readily to the needs of Government in times
9 of crisis or emergency when extraordinary revenues
10 are required. Apart from these advantages, however,
11 it is highly questionable, to my mind, that the
12 corporation income tax is really a good tax in
13 what might be euphemistically termed "more normal
14 times". For in more normal times, it is probably
15 safe to say that "the business of Canadians is
16 business", and a tax structure which impedes the
17 growth and the efficiency of our economic institut-
18 ions the least, would seem to be the appropriate
19 one. The ideal here might well be that which I
20 believe the Canadian Tax Foundation has referred
21 to as "Tax Neutrality", by which is meant a tax³
22 system which will raise revenue in such a way
23 that all economic relationships would remain the
24 same, as they would have been if no taxes were
25 levied.

26 4. Taxes on corporate income are, I believe,
27 unquestionably drags on efficiency. They make
28 business expansion more difficult; they tend to
29 discourage investment; and the incidence of such
30 taxes, while not known with precision, is likely



1 4. such that part is passed on to consumers
2 through higher prices, part is borne by capital,
3 and part is borne by employees. The heavier
4 such taxes are, and the more progression one finds
5 in them, the greater are these undesirable effects.
6 I am not, in any case, personally impressed by
7 either the logic in, or the need for, progressive
8 taxes in a free enterprise economy. In fact I
9 believe that they can lead to quite unwarranted
10 discrimination, as well as to a waste of energy
11 and resources in attempting to avoid or evade
12 their consequences.

13 5. I have admitted that the revenue effects of
14 eliminating the present income tax on corporations
15 would be considerable, but I am scarcely sanguine
16 enough to hope that such elimination is in early
17 prospect. It is worth keeping in mind, however,
18 that most tax revenues are a function of the
19 Gross National Product, and that any action which
20 serves to provide impetus to the economy in terms
21 of growth, productivity and employment brings, to
22 a degree, its own rewards. It is not too difficult
23 to envision buoyant revenues from the personal
24 income tax and from sumptuary taxes (which, by
25 the way, might well be broadened to include many
26 services) resulting from tax relief at the corporate
27 level.

28 6. The third aspect of the corporation income
29 tax, which I have not yet touched upon, is that
30 of equity. There are a number of ways, I believe,



6. In which this tax, as currently imposed, fails to serve the needs of equity. The progressive element, for example, makes it attractive to form proliferations of "Associated Companies", which may serve little purpose but to complicate economic life and tax the ingenuity of the legal profession. As noted previously as well, the more progression one finds in a tax system, the greater become the rewards of successful avoidance, and if some are successful in avoiding while others are not, equity is again not served.

7. The most striking example which I have found of apparent lack of equity in the application of the corporate income tax, however, has not been as between ordinary corporations, but as between ordinary corporations and certain forms of co-operative associations. I propose to examine this in some detail, in an attempt to find the root causes of what appears to me to be a highly inequitable situation, and one fraught with implications for the future of competition within the context of free enterprise.

8. The basic structure and objectives of an ordinary business corporation are probably too well known to require much elaboration. It is a legal entity, formed for the purpose of pooling the investable funds of large numbers of persons, with the intention of carrying on trading activities of some kind with the object of making financial gain for its owners, who are the shareholders.



1 8. Looking now at the nature of the income of
2 such corporations, it should be observed that pure
3 profit, to the economist, occurs only when, as the
4 result of the uncertainty or dynamism inherent in
5 the economic system, a firm receives for its product
6 something more than the sum of all its costs,
7 comprising wages, interest, rent, both explicit and
8 implicit. Included in these costs are, of course,
9 an entrepreneurial wage sufficient to keep manage-
10 ment in the firm, and a return to risk capital
11 sufficient to keep it from wandering away to more
12 attractive opportunities.

13 9. It will be immediately apparent from this
14 that corporation income is not likely to be made
15 up of very much pure profit. In fact, if competit-
16 ion is brisk and approached perfection, such pure
17 profits will disappear completely. Consequently
18 taxes on corporation income are not, as is widely
19 assumed, a tax on profits, except insofar as it will
20 fall on pure profits as well as on other parts of the
21 corporation's income if such profits do happen to
22 exist. They are for the greater part taxes on the
23 cost of acquiring risk capital. The point of im-
24 portance, however, is that most corporation income
25 is not profit at all in the true sense. It is a return
26 to labour, to capital, and to entrepreneurial ability.

27 10. In terms of the distribution of corporate
28 income, it goes, of course, into salaries, wages,
29 interest, payment for materials, and as either
30 dividend payments to the owners of the corporation,



10. or, with their consent, into surplus accounts which may be used for working capital or for investment in expansion. That portion of corporate income, however, which is to be either paid out as earnings of capital in the form of dividends to owners, or held in the corporation as surplus, is subjected, under existing tax laws, to a 21% tax on the first \$35,000 and a 50% tax on amounts above this, and possibly as well to a provincial tax, perhaps of 1 per cent. In addition, that part which is then paid out as dividends becomes subject to personal income tax in the hands of the recipient.

11. Co-operatives, like ordinary corporations, are trading associations, which buy or sell within the same market environment, at prices which are determined by market forces, in which they, along with ordinary corporations, exert their economic power to the extent that they can or choose to do so. As in the case of ordinary corporations, their income must cover all their costs, comprising wages, interest, rent, both explicit and implicit, and payment of some kind for risk capital. In the absence of limitless capital, it must be rationed, and this involves a price which will be determined in the last analysis by market forces.

12. Consequently the nature of co-operative income is no different from the nature of corporate income. It comes from precisely the same economic process, and it can be attributed or imputed to the



12. same factors of production.

13. One might assume, therefore, that both forms of income would be treated in precisely the same manner by the taxing authority, but one finds that it is not. It is necessary therefore to attempt to discover why not, and the answer appears to be contained not in differences in the nature of the income of these two forms of enterprise, but in differences in the manner in which this income is distributed or not distributed within the internal structure of the enterprises themselves.

14. In order to ascertain the nature and degree of these "differences" it is necessary to trace briefly the history of Sections 73 and 75 of the Income Tax Act, which apply to the tax treatment of co-operatives' incomes, and also to examine the nature of the co-operatives' patronage dividend.

15. To this end we shall go back no farther than the Royal Commission on Co-operatives, which reported in September 1945, although this is not to say that there were not events of interest before that date.

16. The McDougall Commission was set up to enquire into the matter of how the income tax and the excess profits tax should apply to co-operatives. Its recommendations led to legislation in 1946, which was amended in 1948, and which still applies at the present time. It is claimed by the investor-owned grain trade that the consequences have been highly favourable to the Pool Elevators and highly discriminatory



1 16. against themselves.

2 17. What the McDougall Commission apparently
3 was trying to do can be inferred from its own
4 statement that

5 "the relative strength of co-operative
6 associations and their competitors
7 should be carefully considered to
8 make certain that the solution finally
9 adopted will not ruin one or the other,
10 or unduly constrict their relative
11 growth and development."

12 (Report of the Royal Commission
13 on Co-operatives, 1945 - Page 31)

14 The difficulties of achieving such a delicate balance
15 through the Income Tax Act will be apparent, especially
16 over a period of time. In any case the Commission
17 decided that co-operatives should be taxed on the
18 same basis as other "persons", and that patronage
19 dividends paid to all customers in cash or its
20 equivalent, or credited on exigible terms, should
21 be deductible in arriving at taxable income. It
22 also recommended that newly-formed co-operatives should
23 be exempted from income tax for the first three years.
24 This latter recommendation was enacted into Section
25 73 of the Income Tax Act. It is so clearly dis-
26 criminatory that it is probably a source of embarrass-
27 ment to the proponents of co-operation, and could
28 probably be repealed without much difficulty. In
29 any case, it is not this aspect of the matter which
30 is of prime interest or significance, in my view.



1 It is the question of what may be deducted before
2 income tax is paid that contains the major possibilit-
3 ies for inequity.

4 18. As noted above, the recommendations of the
5 Royal Commission were enacted by Parliament in 1946
6 into what have become Sections 73 and 75 of the
7 Income Tax Act. But in 1948 the matter was opened
8 again, and Sections 75 (4) (f) (i) and (ii) were
9 added, which had the effect of further qualifying
10 and extending the word "Payment", and which is claimed
11 by some to have provided such obfuscation as to have
12 negated, in its effects, the recommendations of the
13 Royal Commission, or, put in other terms, has upset
14 the competitive balance apparently sought by the
15 Royal Commission, which has been referred to above.

16 19. This is a serious indictment, and should
17 be examined with some care.

18 20. Turning again to the nature of the co-
19 operative, we find that it is a business entity owned
20 by its members. These patron-owners share the gains of
21 the co-operative in proportion to their contribution
22 to it through their patronage. These gains are
23 viewed by the co-operatives as savings rather than
24 profits, and the simplest form of co-operative would
25 be one in which its members each day bought from it
26 goods at actual cost, plus a bit more for overhead,
27 or sold to it at actual cost minus a bit for over-
28 head.

29 21. This is not the way in which co-operatives
30 actually function, however, for a number of very good



1 practical reasons, and consequently co-operatives
2 invariably sell above cost and buy below cost, and
3 annually distribute the earnings as patronage dividends,
4 or conversely, do not distribute them.

5 22. The earnings withheld during the year are
6 of course available to the co-operative, but in
7 addition, if the patronage dividend can be met by
8 some other means than by actually paying out cash,
9 there will be available to the co-operative sums which
10 represent in effect a re-investment of the patron-
11 owners' share of earnings. In practice, the co-
12 operative must obtain consent to so withhold payment
13 not by individual authorization but by general
14 resolution. Since it is another principle of co-
15 operation that only a limited return is allowed on
16 invested capital, patronage being the prime determinant
17 of the magnitude of such return, such funds may on
18 occasion be costless. It is held that in the case
19 of the three Wheat Pools the funds withheld from
20 their members bear **no** interest, thus further en-
21 hancing the competitive position of the Pools.

22 23. It appears that the problem revolves
23 around the question of when is a patronage dividend
24 not a patronage dividend. Some large modern co-
25 operatives are many-product firms, engaged in
26 multifarious operations. Their funds thus tend to
27 be general funds, only imputable with the greatest
28 of difficulty, if at all, to the patronage of any
29 particular member in any particular area of its
30 operations. In fact it is quite conceivable for



23. gains in one area to be offset by losses in another, as in the case of any ordinary corporation. It would seem to follow therefore that patronage dividends paid in cash must be payments to patron-owners qua owners rather than to patron-owners qua patrons, and to the extent that they are not paid in cash, but are withheld by the co-operative entity for its own use, they would seem to be nothing more nor less than internal transfers of surplus. If therefore, through the use of those devices which have been provided in particular in paragraphs (i) and (ii) of Section 75 (4)(f) of the Income Tax Act, these co-operatives in the elevator business have paid taxes on earnings between 1947 and 1962 at an average of only 8.8%, and have been able to retain some \$54 million during this period which would have gone to the treasury if patronage dividends deducted from income in the amount of some \$116 million had not been allowed, it would seem that the hope of the McDougall Commission that the solution adopted "will not ruin one or the other, or unduly constrict their relative growth and development" has somehow been frustrated, and that the investor-owned elevator companies have good cause for their apprehension as to the ultimate result.

24. One other aspect of the matter deserves some small attention. It is held by some upholders of the co-operative position that there is absolutely no discrimination in Section 75 of the Income Tax Act,



24. since it provides that any kind of business organization may deduct from its taxable income allocations of dividends in respect of patronage. This is a specious argument, and should be recognized as nothing more. It is surprising, in fact, that the Royal Commission on Co-operatives should have accepted it, as it apparently did. It should be obvious that ordinary corporations cannot pay patronage dividends to their customers without endangering their entire survival as business organizations. It is deplorable in fact to see some of them attempt to match the practices of the co-operative in this regard. The one form of business enterprise destroys itself by adopting a practice on which the co-operative thrives. The reason for this lies of course in the fact that the patronage dividend of an income-making co-operative is not a price rebate. It could only be so if paid to a person whose interest is adverse to the co-operative which pays it. (See R.T. Patterson, "The Tax Exemption of Co-operatives", Page 71.) On the contrary, it is a dividend paid or credited to its stockholders, indistinguishable in fact from any other distribution of profit, and this in turn because most co-operatives today have lost their "agency" status, if they ever had one. Further, as Professor McIvor has observed,

"To point out, as is frequently done, that ordinary corporations are free to re-organize as co-operatives is



1 24. "not to deny but to affirm the
2 reality of discrimination as
3 between the two forms of
4 organization."

5 ("Recent Growth in Canadian Co-
6 Operatives"
7 - Canadian Tax Foundation, 1962 -
8 Page 36).

8 25. Returning now to the earlier discussion of
9 the corporation income tax, it will be recalled that
10 it was charged with being an impediment to invest-
11 ment and business expansion and a drag on efficiency.
12 If such is the case, it is not difficult to envision
13 quite remarkable effects from its removal. By the
14 same token, if one sector of the economy is burdened
15 with this tax while another sector in competition
16 with it escapes the large part of this burden, one
17 would reasonably expect the favoured sector to out-
18 strip its competitor in performance. This in fact
19 is precisely what appears to have been happening
20 in the Western grain trade, on statistical evidence,
21 which shows that the Grain Co-operatives, since 1931,
22 have increased their share of the total business from
23 46 per cent to 66 per cent, and their operation of
24 elevators from 38 per cent to 56 per cent. Further-
25 more, it is obvious that as the Co-operatives expand
26 operations while still escaping the burden of income
27 tax, this burden will have to be borne to an increas-
28 ing extent by ordinary corporations.

29 26. It would clearly be in the direction of
30 equity to place the ordinary corporation and the



1 26. co-operative in more readily comparable positions
2 tax-wise than they appear to be at the moment. The
3 entire removal of the corporation income tax would
4 achieve this at a stroke. In the unlikelihood of
5 this ideal solution being brought about, however,
6 equity would I think, be served by the following

- 7 1. Repeal Section 73 of the Income Tax
8 Act, which exempts co-operatives from
9 income tax during the first three
10 years of their existence.
- 11 2. Repeal Section 75 of the Income Tax
12 Act, and replace it with a new section
13 which disallows all patronage dividends
14 and all payments, allocations and
15 credits in proportion to patronage
16 as deductions from taxable income,
17 and also requires that such dividends,
18 etc., be subject to taxation in the
19 hands of the recipients, with the
20 same credits as apply in the case
21 of ordinary corporate dividends.

22 27. Business corporations and co-operatives are
23 both entirely legitimate forms of enterprise in our
24 economy. Each has its particular attractions to
25 sectors of the population, and both contribute to the
26 viability and vigour of our economic life. The
27 philosophies underlying the two forms are somewhat
28 different, but they are both business organizations
29 seeking gain. In a high tax economy such as Canada's,
30 there would seem to be no place for tax favours which



27. not only place one form of enterprise in a privileged position competitively, but also increase the tax burden on the taxable sector in order to maintain revenues. The continuance of the kind of subsidy that has been described in this submission could, in my view, only be supported if Government were prepared to declare openly that as a matter of public policy it favours the growth of co-operative forms of enterprise over the growth of investor-owned forms, and this would be a very significant declaration indeed. Failing the adoption of such an overt policy, however, there would seem to be no alternative to removing the tax discrimination which at present exists between the two forms of enterprise.

28. It is not difficult to be somewhat sentimental over the definition of a co-operative association provided by some economic historians, such as, for example, C. R. Fay, as

"an association for the purposes of joint-trading, originating among the weak and conducted always in an unselfish spirit."

One is apt also to view with a moist eye the struggles of the Rochdale Equitable Pioneers to acquire their 28 Pounds of original investment, painfully built up of twopenny contributions; and much of the earlier history of the co-operative movement in Canada contains accounts of fortitude and of high purpose, but it is wise to ensure that such sentiment is not being



1 misplaced when one is discussing organizations whose
2 assets, sales and earnings run into the hundreds
3 of millions of dollars, and who, aided by what
4 amounts to virtual Governmental subsidies, appear
5 to be in the process of absorbing their competitors
6 who carry their full burden of taxation, but whose
7 economic efficiency may certainly be no less in the
8 absence of such a burden. It is submitted that it
9 would be no more wise to permit sentiment to stand
10 in the way of justice in such a situation than it
11 would in the celebrated but probably apocryphal case
12 of the youth who murdered his parents, on the ground
13 that orphans are deserving of sympathy. I hasten
14 to add that I have drawn here merely on analogy, and
15 not a parallel.

16 ALL OF WHICH IS RESPECTFULLY SUBMITTED,
17
18

19 (Signed) Gordon Blake
20

21 Winnipeg, Manitoba,
22

23 July 15, 1963.
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TORONTO. ONTARIO

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2 SUMMARY OF
3 CORPORATIONS, CO-OPERATIVES
4 and the
5 PRINCIPLE OF EQUITY
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10 A
11 SUBMISSION
12 to the
13 ROYAL COMMISSION ON TAXATION
14

15 by
16 GORDON BLAKE, M.A., Ph.D.

17 Economic Consultant
18 to
19 The North-West Line Elevators Association
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GORDON BLAKE

Biographical Sketch

B.A. - McMaster University, 1936

M.A. - University of Toronto, 1946

Ph.D. - University of Toronto, 1954

Present Occupation - Professor of Economics and
Chairman of Department of
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United College, Winnipeg,
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1958-61 - Dean of Arts and Science, United
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1951-52 - Maurice Cody Research Fellow -
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Current Recipient of Canada Council Senior
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1958 - Secretary and Economist, Natural Gas
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Author of "Customs Administration in Canada"
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Co-Author of "The Blake-Goldenberg Report" -
A Study of the Financing of the
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Economic Consultant to Manitoba Public
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Presently engaged in a Study of the Construction
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July 15, 1963



SUMMARY

CORPORATIONS, CO-OPERATIVES

and the

PRINCIPLE OF EQUITY

1. Modern tax systems must be assessed in terms of revenue, economic effects, and equity. Of particular importance in the present state of Canadian economic development, in my view, is the manner in which taxes upon the income of business corporations affect these three conditions. It is my opinion that such taxes, while they are admittedly productive of revenue, have little to commend them in other terms, tending to hinder economic development, and consequently having a deleterious effect upon the ultimate base from which tax revenues may be drawn.
2. It is further contended that the corporation tax as presently applied and administered in Canada is not likely to be productive of equity, and a striking example of this is to be found, I think, in the discriminatory aspects of such taxation as between ordinary business corporations and co-operatives. The principal reason for the existence of this discrimination is the manner in which income generated by these two forms of enterprise is viewed for tax purposes, that is to say, in the manner in which deductions are allowed from income in arriving at taxable income. I believe that Section 75 of the Income Tax Act is seriously at fault here, in that it provides co-operatives with an undue and unwarranted advantage through the allowance of patronage



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1 dividends, especially those made on a non-cash basis,
2 as deductions from taxable income.

3 3. I believe that it is impossible to
4 sustain the distinctions which have been artificially
5 created between such patronage dividends and any other
6 allocation of income. Both corporations and co-operatives
7 are economic institutions, seeking financial advantage
8 for their owners and members. To the extent therefore
9 that they produce net income, they should be accorded
10 identical tax treatment.

11 4. I recommend therefore that the Income Tax
12 Act be amended to remove all distinctions between
13 corporate and co-operative income for tax purposes,
14 in the interest of equity as well as for reasons of
15 revenue, and, certainly not least, in order to preserve
16 competition on a fair and equal basis between these
17 two forms of enterprise, as will result in the most
18 efficient allocation of resources.

19
20 Winnipeg, Manitoba,
21 July 15, 1963.

"Gordon Blake"



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CORPORATIONS, CO-OPERATIVES

and the

PRINCIPLE OF EQUITY

A
SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

by

GORDON BLAKE, M.A., Ph.D.

Economic Consultant

to

The North-West Line Elevators Association

Winnipeg, Manitoba

July 15, 1963



1 1. Modern day systems of taxation must be
2 assessed with three aspects in mind:

3 (a) Revenue;

4 (b) Economic effects; and

5 (c) Equity.

6 Obviously the tax system must be sufficiently productive
7 to generate the revenues which Government must have to
8 meet its proper responsibilities, and the revenue effects
9 must always be limiting factors when changes are
10 proposed in either rates or structure. At the same
11 time, it is widely recognized that in present day high
12 tax economies, the burden of taxation, and changes in
13 that burden, are likely to have important and widespread
14 effects on the size and composition of the Gross
15 National Product, which is perhaps the most significant
16 economic indicator which we possess. Finally, those who
17 create and administer the tax structure must, in a
18 democratic state, constantly strive to produce and
19 preserve equity in the distribution of the tax burden.

20 2. It is gratifying to observe from the terms
21 of reference of this Royal Commission that these three
22 aspects are clearly intended to be given full attention.
23 Consequently it is with some confidence of a sympathetic
24 hearing that I make the following submission concerning
25 one particular aspect of the present tax system, and
26 attempt to relate it to the three taxation objectives
27 referred to above. This particular aspect is that
28 having to do with the way in which the incomes of business
29 organizations are taxed, in particular those having
30 a corporate form.



1 3. A glance at income tax statistics indicates
2 immediately that the corporation income tax in this
3 country has been a good producer of revenue. Being
4 reasonably easy of collection, it also lends itself
5 readily to the needs of Government in times of crisis or
6 emergency when extraordinary revenues are required.
7 Apart from these advantages, however, it is highly
8 questionable, to my mind, that the corporation income tax
9 is really a good tax in what might be euphemistically
10 termed "more normal times". For in more normal times,
11 it is probably safe to say that "the business of Canadians
12 is business", and a tax structure which impedes the growth
13 and the efficiency of our economic institutions the least,
14 would seem to be the appropriate one. The ideal here
15 might well be that which I believe the Canadian Tax
16 Foundation has referred to as "tax Neutrality", by which
17 is meant a tax system which will raise revenue in such a
18 way that all economic relationships would remain the
19 same, and all economic decisions would be the same, as
20 they would have been if no taxes were levied.

21 4. Taxes on corporate income are, I believe, un-
22 questionably drags on efficiency. They make business
23 expansion more difficult; they tend to discourage invest-
24 ment; and the incidence of such taxes, while not known
25 with precision, is likely such that part is passed on to
26 consumers through higher prices, part is borne by capital,
27 and part is borne by employees. The heavier such taxes
28 are, and the more progression one finds in them, the
29 greater are these undesirable effects. I am not, in
30 any case, personally impressed by either the logic in, or



1 the need for, progressive taxes in a free enterprise
2 economy. In fact I believe that they can lead to quite
3 unwarranted discrimination, as well as to a waste of
4 energy and resources in attempting to avoid or evade
5 their consequences.

6 5. I have admitted that the revenue effects
7 of eliminating the present income tax on corporations
8 would be considerable, but I am scarcely sanguine enough
9 to hope that such elimination is in early prospect. It
10 is worth keeping in mind, however, that most tax revenues
11 are a function of the Gross National Product, and that
12 any action which serves to provide impetus to the economy
13 in terms of growth, productivity and employment brings,
14 to a degree, its own rewards. It is not too difficult
15 to envision buoyant revenues from the personal income tax
16 and from sumptuary taxes (which, by the way, might well
17 be broadened to include many services) resulting from tax
18 relief at the corporate level.

19 6. The third aspect of the corporation income
20 tax, which I have not yet touched upon, is that of equity.
21 There are a number of ways, I believe, in which this tax,
22 as currently imposed, fails to serve the needs of equity.
23 The progressive element, for example, makes it attractive
24 to form proliferations of "Associated Companies", which
25 may serve little purpose but to complicate economic life
26 and tax the ingenuity of the legal profession. As noted
27 previously as well, the more progression one finds in
28 a tax system, the greater become the rewards of successful
29 avoidance, and if some are successful in avoiding while
30 others are not, equity is again not served.



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7. The most striking example which I have found of apparent lack of equity in the application of the corporate income tax, however, has not been as between ordinary corporations, but as between ordinary corporations and certain forms of co-operative associations. I propose to examine this in some detail, in an attempt to find the root causes of what appears to me to be a highly inequitable situation, and one fraught with implications for the future of competition within the context of free enterprise.

8. The basic structure and objectives of an ordinary business corporation are probably too well known to require much elaboration. It is a legal entity, formed for the purpose of pooling the investable funds of large numbers of persons, with the intention of carrying on trading activities of some kind with the object of making financial gain for its owners, who are the shareholders. Looking now at the nature of the income of such corporations, it should be observed that pure profit, to the economist, occurs only when, as the result of the uncertainty or dynamism inherent in the economic system, a firm receives for its product something more than the sum of all its costs, comprising wages, interest, rent, both explicit and implicit. Included in these costs are, of course, an entrepreneurial wage sufficient to keep management in the firm, and a return to risk capital sufficient to keep it from wandering away to more attractive opportunities.

9. It will be immediately apparent from this that corporation income is not likely to be made up of



1 very much pure profit. In fact, if competition is brisk
2 and approaches perfection, such pure profits will dis-
3 appear completely. Consequently taxes on corporation in-
4 come are not, as is widely assumed, a tax on profits,
5 except insofar as it will fall on pure profits as well as
6 on other parts of the corporation's income if such
7 profits do happen to exist. They are for the greater
8 part taxes on the cost of acquiring risk capital. The
9 point of importance, however, is that most corporation
10 income is not profit at all in the true sense. It is a
11 return to labour, to capital, and to entrepreneurial
12 ability.

13 10. In terms of the distribution of corporate
14 income, it goes, of course, into salaries, wages, interest,
15 payment for materials, and as either dividend payments
16 to the owners of the corporation, or, with their consent,
17 into surplus accounts which may be used for working
18 capital or for investment in expansion. That portion of
19 corporate income, however, which is to be either paid out
20 as earnings of capital in the form of dividends to owners,
21 or held in the corporation as surplus, is subjected, under
22 existing tax laws, to a 21% tax on the first \$35,000 and
23 a 50% tax on amounts above this, and possibly as well to
24 a provincial tax, perhaps of 1 per cent. In addition,
25 that part which is then paid out as dividends becomes
26 subject to personal income tax in the hands of the
27 recipient.

28 11. Co-operatives, like ordinary corporations,
29 are trading associations which buy or sell within the
30 same market environment, at prices which are determined by



1 market forces, in which they, along with ordinary
2 corporations, exert their economic power to the extent
3 that they can or choose to do so. As in the case of
4 ordinary corporations, their income must cover all their
5 costs, comprising wages, interest, rent, both explicit
6 and implicit, and payment of some kind for risk capital.
7 In the absence of limitless capital, it must be rationed,
8 and this involves a price which will be determined in the
9 last analysis by market forces.

10 12. Consequently the nature of co-operative
11 income is no different from the nature of corporate income.
12 It comes from precisely the same economic process, and it
13 can be attributed or imputed to the same factors of
14 production.

15 13. One might assume, therefore, that both
16 forms of income would be treated in precisely the same
17 manner by the taxing authority, but one finds that it is
18 not. It is necessary therefore to attempt to discover
19 why not, and the answer appears to be contained not in
20 differences in the nature of the income of these two
21 forms of enterprise, but in differences in the manner in
22 which this income is distributed or not distributed
23 within the internal structure of the enterprises them-
24 selves.

25 14. In order to ascertain the nature and degree
26 of these "differences" it is necessary to trace briefly
27 the history of Sections 73 and 75 of the Income Tax Act,
28 which apply to the tax treatment of co-operatives' incomes,
29 and also to examine the nature of the co-operatives'
30 patronage dividend.



1 15. To this end we shall go back no farther
2 than the Royal Commission on Co-operatives, which reported
3 in September 1945, although this is not to say that there
4 were not events of interest before that date.

5 16. The McDougall Commission was set up to
6 enquire into the matter of how the income tax and the
7 excess profits tax should apply to co-operatives. Its
8 recommendations led to legislation in 1946, which was
9 amended in 1948, and which still applies at the present
10 time. It is claimed by the investor-owned grain trade that
11 the consequences have been highly favourable to the Pool
12 Elevators and highly discriminatory against themselves.

13 17. What the McDougall Commission apparently
14 was trying to do can be inferred from its own statement
15 that

16 "the relative strength of co-operative associations
17 and their competitors should be carefully
18 considered to make certain that the solution
19 finally adopted will not ruin one or the other,
20 or unduly constrict their relative growth and
21 development."

22 (Report of the Royal Commission on
Co-operatives, 1945 - Page 31)

23 The difficulties of achieving such a delicate balance
24 through the Income Tax Act will be apparent, especially
25 over a period of time. In any case the Commission decided
26 that co-operatives should be taxed on the same basis as
27 other "persons", and that patronage dividends paid to all
28 customers in cash or its equivalent, or credited on
29 exigible terms, should be deductible in arriving at
30 taxable income. It also recommended that newly-formed



1 co-operatives should be exempted from income tax for the
2 first three years. This latter recommendation was
3 enacted into Section 73 of the Income Tax Act. It is so
4 clearly discriminatory that it is probably a source of
5 embarrassment to the proponents of co-operation, and
6 could probably be repealed without much difficulty. In
7 any case, it is not this aspect of the matter which is of
8 prime interest or significance, in my view. It is the
9 question of what may be deducted before income tax is paid
10 that contains the major possibilities for inequity.

11 18. As noted above, the recommendations of
12 the Royal Commission were enacted by Parliament in 1946
13 into what have become Sections 73 and 75 of the Income
14 Tax Act. But in 1948 the matter was opened again, and
15 Sections 75 (4) (f) (i) and (ii) were added, which had
16 the effect of further qualifying and extending the word
17 "payment", and which is claimed by some to have provided
18 such obfuscation as to have negated, in its effects, the
19 recommendations of the Royal Commission, or, put in other
20 terms, has upset the competitive balance apparently sought
21 by the Royal Commission, which has been referred to above.

22 19. This is a serious indictment, and should
23 be examined with some care.

24 20. Turning again to the nature of the
25 co-operative, we find that it is a business entity owned
26 by its members. These patron-owners share the gains of the
27 co-operative in proportion to their contribution to it
28 through their patronage. These gains are viewed by the
29 co-operatives as savings rather than profits, and the
30 simplest form of co-operative would be one in which its



1 members each day bought from it goods at actual cost,
2 plus a bit more for overhead, or sold to it at actual
3 cost minus a bit for overhead.

4 21. This is not the way in which co-operatives
5 actually function, however, for a number of very good
6 practical reasons, and consequently co-operatives
7 invariably sell above cost and buy below cost, and annually
8 distribute the earnings as patronage dividends, or
9 conversely, do not distribute them.

10 22. The earnings withheld during the year are
11 of course available to the co-operative, but in addition,
12 if the patronage dividend can be met by some other means
13 than by actually paying out cash, there will be available
14 to the co-operative sums which represent ineffect a
15 re-investment of the patron-owners' share of earnings.
16 In practice, the co-operative must obtain consent to so
17 withhold payment not by individual authorization but by
18 general resolution. Since it is another principle of
19 co-operation that only a limited return is allowed on
20 invested capital, patronage being the prime determinant
21 of the magnitude of such return, such funds may on occasion
22 be costless. It is held that in the case of the three
23 Wheat Pools the funds withheld from their members bear
24 no interest, thus further enhancing the competitive
25 position of the Pools.

26 23. It appears that the problem resolves
27 around the question of when is a patronage dividend not
28 a patronage dividend. Some large modern co-operatives are
29 many-product firms, engaged in multifarious operations.
30 Their funds thus tend to be general funds, only imputable



1 with the greatest of difficulty, if at all, to the
2 patronage of any particular member in any particular area
3 of its operations. In fact it is quite conceivable for
4 gains in one area to be offset by losses in another, as
5 in the case of any ordinary corporation. It would seem
6 to follow therefore that patronage dividends paid in cash
7 must be payments to patron-owners qua owners rather than
8 to patron-owners qua patrons, and to the extent that they
9 are not paid in cash, but are withheld by the co-operative
10 entity for its own use, they would seem to be nothing more
11 nor less than internal transfers or surplus. If therefore,
12 through the use of those devices which have been provided
13 in particular in paragraphs (i) and (ii) of Section 75
14 (4) (f) of the Income Tax Act, these co-operatives in the
15 elevator business have paid taxes on earnings between
16 1947 and 1962 at an average of only 8.8%, and have been
17 able to retain some \$54 million during this period which
18 would have gone to the treasury if patronage dividends
19 deducted from income in the amount of some \$116 million
20 had not been allowed, it would seem that the hope of the
21 McDougall Commission that the solution adopted "will not
22 ruin one or the other, or unduly constrict their relative
23 growth and development" has somehow been frustrated, and
24 that the investor-owned elevator companies have good cause
25 for their apprehension as to the ultimate result.

26 24. One other aspect of the matter deserves
27 some small attention. It is held by some upholders of
28 the co-operative position that there is absolutely no
29 discrimination in Section 75 of the Income Tax Act, since
30 it provides that any kind of business organization may



1 deduct from its taxable income allocations of dividends
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7 dividends to their customers without endangering their
8 entire survival as business organizations. It is
9 deplorable in fact to see some of them attempt to match
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12 adopting a practice on which the other form thrives. The
13 reason for this lies of course in the fact that patronage
14 dividend of an income-making co-operative is not a price
15 rebate. It could only be so if paid to a person whose
16 interest is adverse to the co-operative which pays it.
17 (See R. T. Patterson, "The Tax Exemption of Co-operatives",
18 Page 71.) On the contrary, it is a dividend paid or credited
19 to its stockholders, indistinguishable in fact from any
20 other distribution of profit, and this in turn because
21 most co-operatives today have lost their "agency" status,
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23 Further, as Professor McIvor has observed,
24 "To point out, as is frequently done, that
25 ordinary corporations are free to re-organize
26 as co-operatives is not to deny but to affirm
27 the reality of discrimination as between
28 the two forms of organization."

29 (Recent Growth in Canadian Co-operatives"
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25. Returning now to the earlier discussion



1 of the corporation income tax, it will be recalled that
2 it was charged with being an impediment to investment and
3 business expansion and a drag on efficiency. If such is
4 the case, it is not difficult to envision quite remarkable
5 effects from its removal. By the same token, if one
6 section of the economy is burdened with this tax while
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8 part of this burden, one would reasonably expect the
9 favoured sector to outstrip its competitor in performance.
10 This in fact is precisely what appears to have been
11 happening in the Western grain trade, on statistical
12 evidence, which shows that the Grain Co-operatives, since
13 1931, have increased their share of the total business from
14 46 per cent to 66 per cent, and their operation of
15 elevators from 38 per cent to 56 per cent. Furthermore,
16 it is obvious that as the Co-operatives expand operations
17 while still escaping the burden of income tax, this burden
18 will have to be borne to an increasing extent by ordinary
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20 26. It would clearly be in the direction of
21 equity to place the ordinary corporation and the
22 co-operative in more readily comparable positions tax-wise
23 than they appear to be at the moment. The entire removal
24 of the corporation income tax would achieve this at a
25 stroke. In the unlikelihood of this ideal solution
26 being brought about, however, equity would I think, be
27 served by the following

- 28 1. Repeal Section 73 of the Income Tax Act,
29 which exempts co-operatives from income tax
30 during the first three years of their
existence.



1
2 2. Repeal Section 75 of the Income Tax Act,
3 and replace it with a new section which
4 disallows all patronage dividends and all
5 payments, allocations and credits in pro-
6 portion to patronage as deductions from
7 taxable income, and also requires that such
8 dividends, etc., be subject to taxation
9 in the hands of the recipients, with the
10 same credits as apply in the case of
11 ordinary corporate dividends.

12 27. Business corporations and co-operatives are
13 both entirely legitimate forms of enterprise in our
14 economy. Each has its particular attractions to sectors
15 of the population, and both contribute to the viability
16 and vigour of our economic life. The philosophies
17 underlying the two forms are somewhat different, but they
18 are both business organizations seeking gain. In a high
19 tax economy such as Canada's, there would seem to be no
20 place for tax favours which not only place one form of
21 enterprise in a privileged position competitively, but also
22 increase the tax burden on the taxable sector in order to
23 maintain revenues. The continuance of the kind of subsidy
24 that has been described in this submission could, in my
25 view, only be supported if Government were prepared to
26 declare openly that as a matter of public policy it favours
27 the growth of co-operative forms of enterprise over the
28 growth of investor-owned forms, and this would be a very
29 significant declaration indeed. Failing the adoption of
30 such an overt policy, however, there would seem to be no
alternative to removing the tax discrimination which at



1 present exists between the two forms of enterprise.

2 28. It is not difficult to be somewhat senti-
3 mental over the definition of a co-operative association
4 provided by some economic historians, such as, for
5 example, C. R. Fay, as

6 "an association for the purposes of joint-
7 trading, originating among the weak and
8 conducted always in an unselfish spirit."

9 One is apt also to view with a moist eye the struggles
10 of the Rochdale Equitable Pioneers to acquire their
11 28 Pounds of original investment, painfully built up of
12 twopenning contributions; and much of the earlier history
13 of the co-operative movement in Canada contains accounts
14 of fortitude and of high purpose, but it is wise to
15 ensure that such sentiment is not being misplaced when one
16 is discussing organizations whose assets, sales and
17 earnings run into the hundreds of millions of dollars, and
18 who, aided by what amounts to virtual Governmental sub-
19 sidies, appear to be in the process of absorbing their
20 competitors who carry their full burden of taxation, but
21 whose economic efficiency may certainly be no less in
22 the absence of such a burden. It is submitted that it
23 would be no more wise to permit sentiment to stand in the
24 way of justice in such a situation than it would in the
25 celebrated but probably apocryphal case of the youth who
26 murdered his parents, on the ground that orphans are
27 deserving of sympathy. I hasten to add that I have
28 drawn here merely an analogy, and not a parallel.

29 ALL OF WHICH IS RESPECTFULLY SUBMITTED,
30 Winnipeg, Manitoba "Gordon Blake"
July 15, 1963.



ANGUS, STONEHOUSE & CO. LTD.
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1 affects us.

2

3 5. Would you be willing to say that the alleged superior
4 competitive position of the "pool" companies would be
5 removed if dividends of all corporations were per-
6 mitted as deductions from corporate taxable income?

7

8 While our Members would no doubt be happy to
9 escape corporate taxation, we feel that under conditions
10 as they exist any such solution would be subject to
11 criticism as short sighted and not in the best interests
12 of the country as a whole.

13

14 6. Is it possible to give meaningful comparisons between
15 the Line companies and the "pools" of the relative
16 importance of retained earnings in the two types of
17 organizations?

18

19 Retained earnings, irrespective of the nature
20 of the corporation - that is whether private enterprise
21 or co-operative enterprise - are the same and used for
22 the same purpose.

23

Yours very truly,

24

Cecil Lamont
President

25

26

27

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Office of the Secretary-Treasurer
1595 West 10th Avenue
VANCOUVER 9, B.C.

Board of School Trustees
of School District No. 39 (Vancouver)

December 12th, 1962.

Secretary.
Royal Commission on Taxation,
P.O. Box 466,
Ottawa, Canada.

RE: Royal Commission on Taxation.

Dear Sir:

The Board of School Trustees of School District No. 39 (VANCOUVER), being the authority duly authorized under the Public Schools Act of the Province of British Columbia to administer the Public School System in the City of Vancouver, at a recent meeting considered matters to be brought before the Royal Commission on Taxation.

The Board agreed that due to the pressure of other business, it would not prepare a brief for presentation to the Commission.

However it was felt that the Federal Government, by exempting from sales tax all equipment and supplies used by educational institutions, could in a positive way, and without prejudice, give a form of Federal aid to education. Furthermore, such exemption would result in additional savings by eliminating the administrative costs involved under the existing complex regulations.

The Board, therefore, approved a motion



1 instructing the Secretary-Treasurer to write
2 requesting that the matter of Federal Sales and
3 Excise taxes, as they effect school boards, be
4 given careful consideration by the Commission.

5 Respectfully submitted,

6 (Signed) J. E. Robertson,
7 Secretary-Treasurer,
8 Board of School Trustees of
9 School District No.39 (VANCOUVER).

JER:ado.
c.c.Secretary,B.C.S.T.A.
Secretary, C.S.T.A.

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INDUSTRIAL DEVELOPMENT COMMISSION
of Greater Vancouver

1123 - 355 Burrard Street
Vancouver 1, Canada.

August 15th, 1963.

Mr. Kenneth LeM. Carter,
Chairman,
Royal Commission on Taxation,
c/o Vancouver Public Library,
Vancouver, B.C.

Dear Sir:

We of the Industrial Development Commission of Greater Vancouver are concerned as to effects of the growing tax burden on our industries as it becomes a cost factor which of necessity must ultimately be written into prices. This is damaging to their position in our increasingly competitive markets and our ability to increase employment opportunities for the increasing labour force.

We have been indirectly associated with sub-missions that have been placed before you, but now that Mr. H.S. Brown of Kings' Way Lamp & Manufacturing (1960) Ltd. has submitted his personal problems we take this opportunity to support his position as his is by no means an isolated case. A year or more ago we placed this problem before the Honourable George Hees and it was passed along to the Minister of Finance and the Minister of National Revenue on behalf of:-

Gearmatic Company, North Surrey, B.C.

Elco Manufacturing Co. Ltd., Vancouver, B.C.

W. Freeman & Son Ltd., Vancouver, B.C.

Metalex Ltd., Richmond, B.C.



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1 and others not named with supporting correspondence.
2 Their main concern centred on the uneven application of
3 the Federal sales tax and certain operation rulings
4 which were set out in part as follows:-
5 "1. The Federal Sales Tax is applied to the manufacturers
6 selling price which must include selling cost, distribu-
7 tion and profit, whereas the application of Federal Sales
8 Tax on imports for similar products is only assessed
9 against the duty paid value. This import value does not
10 include the cost of selling, distributing and profit and
11 so the local manufacturer must bear the cost of a heavier
12 sales tax with more favoured treatment in this regard
13 going to the importer of foreign goods.
14 2. Duty on some specific products dutiable as "A Class
15 or Kind Made in Canada" at $22\frac{1}{2}\%$ is trapped under Class
16 even though certain items of Kind are not produced in
17 Canada, yet can enter Canada as part of a finished pro-
18 duct at low duty or duty free, depending on the use.
19 3. Many imports for end use by primary industries are
20 given preferential or duty free entry into Canada, while
21 Canadian products of similar items are dutiable on export,
22 i.e. U.S.A. duties. Our manufacturers look for recipro-
23 city in such items and contend that foreign manufacturers
24 are thus in a preferred position with free access to their
25 home markets and those in Canada. Under this condition,
26 there is a strong pull for certain local manufacturers to
27 move South to benefit by a free access to both markets.
28 4. In similar fashion to the foregoing item, some
29 Canadian-made products do not receive the intended tariff
30 protection when such products are imported as an attach-



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1 ment to equipment that is allowed duty free entry.
2 5. In spite of the Federal Government's assistance in
3 tariff protection for Canadian components in many lines
4 and the recapture of tariff and sales tax on foreign
5 made components incorporated in Canadian products for
6 export, there is a strong inducement to increase U.S.A.
7 component parts as far as possible to overcome their
8 duties on our exports. Again considering the recapture
9 provision, some local manufacturers who import a limited
10 amount of components find the problem of paper work and
11 cost of same more expensive or troublesome than the value
12 of recapture. It is to be noted that our local secondary
13 industries are largely free trade minded so long as it is
14 reciprocal."

15 Our concern in this matter was heightened when
16 the Honourable Walter Gordon submitted his budget to
17 Parliament in June and we addressed a letter to the
18 Prime Minister reading in part as follows:-

19 "The section of the budget which reimposes the
20 11% sales tax on production equipment and building ma-
21 terials with no exemption for job creating industries
22 except in fishing and agriculture is beyond our compre-
23 hension. We acknowledge some aid through rapid deprecia-
24 tion but it creates a heavier capitalization and profits
25 must be made before benefits are realized. We in British
26 Columbia as across the Prairies and in the Maritimes are
27 fighting to expand and develop new secondary industries
28 in order to create job opportunities for our young people
29 and our growing work force and a better balanced economy.

30 We believe that the tax engendered by new jobs,



1 greater production and unemployment savings would be much
2 greater in the long run than the amount of this sales
3 tax withdrawn by these suggested exemptions.

4 One of our newly incorporated companies formed
5 to open up a new industry for British Columbia here in
6 Greater Vancouver is now ready to start with their fin-
7 ancing complete for a \$700,000 investment in machinery
8 and about \$250,000 in buildings and they anticipate em-
9 ploying 40 to 50 people. They cannot help but compare
10 our type of inducement with its 11% jolt totalling over
11 \$90,000 with the incentives given for new industries by
12 other beckoning countries."

13 We recognize that this has been alleviated to
14 some extent by a reduced sales tax for this year and next
15 year in certain areas.

16 We believe that the application of the sales
17 tax at the retail or end-use level rather than on manu-
18 facturer's selling price could well alleviate this ob-
19 stacle for the producer and may have other benefits.
20 This could eliminate the pyramiding of the effect of the
21 tax cost which is now embedded in the manufacturer's
22 price and certainly would increase the consumer's aware-
23 ness of the cost of Government benefits.

24 We appreciate the work your Commission has set
25 its hand to do and trust that your review of the taxation
26 factors built into our manufacturer's cost may well assist
27 in bringing forward some tax relief which may stimulate
28 growth and development in this field.

29 INDUSTRIAL DEVELOPMENT COMMISSION OF GREATER
30 VANCOUVER

Ralph C. Pybus, Chairman

S U B M I S S I O N
of
THE HEAVY CONSTRUCTION ASSOCIATION OF B.C.
to the
ROYAL COMMISSION
on
TAXATION

JULY, 1963.

This brief is submitted on behalf of the Heavy Construction Association of B.C., which is affiliated with the Canadian Construction Association and offers support to their national policies on taxation.

This brief contains the following recommendations:

1. Changes in the Capital Cost Allowance for construction equipment.
2. The Completed Contract Method for reporting income.
3. Contractors be allowed to average income over a five year period as is done in the fishing and farming industries.
4. A uniform exemption of Federal Sales Tax upon all construction equipment for all purchasers.

THE HEAVY CONSTRUCTION ASSOCIATION OF B.C.
SUBMISSION TO THE ROYAL COMMISSION ON TAXATION

1. The Heavy Construction Association of B.C., welcomes this opportunity to place before this Royal Commission its views in respect to the incidence and effects of taxation imposed by the Parliament of Canada. It is the sincere hope of this Association that it may be able to make some constructive contribution to these important proceedings and that it may be able, in some measure, to assist this Royal Commission in its inquiry.

2. The Heavy Construction Association of B.C., founded in 1947 and incorporated under the Societies Act of B.C., on April 12, 1960, is a non-profit organization representing the Roadbuilding and Heavy Construction Industry of British Columbia.

3. Member Companies of the Association include almost all contractors engaged in road building and heavy construction work in this Province as well as many firms engaged in the manufacture, sale or supply of materials, equipment or services used by these contractors and are, to a large extent, dependent upon these contractors for an outlet of their sales or services in this Province. (Appendix A - Membership Roster).

4. The heavy construction industry in British Columbia is a seasonal industry dependent upon fair weather during the summer months for the successful completion of projects. Operations such as asphaltic paving require warm, dry weather, thus rendering unsatisfactory for construction many cool or wet days even during the summer months. Tendering authorities must often schedule completion dates for individual projects with an eye to the completion of the entire project before spring run-off, winter freeze-up or incapacitating snow falls.

5. Not only is the contractor subjected to the seasonal fluctuation of work and the rigorous scheduling of operations due to weather conditions but also the awarding of contracts may vary from year to year, dependent upon politics, election dates, tightening and easing of credit restrictions and the confidence of the general public and business leaders in the economy of the Province and of the nation.

6. The Construction Industry is one which affects the welfare of all other industries in Canada. Matters which adversely affect the Construction Industry are, therefore, of general concern to the nation's economy. So much of the Canadian economy relies on the construction program that any sizeable reduction in its volume would not only adversely affect the industry itself but also the general public. "Construction In Canada", issued by the Department of Trade & Commerce, has recorded an average annual construction program valued at over \$7 billion since 1957. The Department's Investment Outlook for 1963 records construction intentions totalling \$7,608 million. As Canada's largest industry, construction gives direct jobs to the year-around equivalent of some 556,000 Canadians and to an even larger number off-site who produce, transport and merchandize construction materials and equipment. In British Columbia, the total value of Construction has been in excess of \$800 million a year since 1957, thus representing, though not the largest of B.C.'s industries, one that contributes greatly to the economy of the Province.

7. The Heavy Construction Association of B.C., is affiliated with the Canadian Construction Association and as such has participated in the formulation of that organization's policies in regards to taxation.

8. It is therefore the intention of this Association to endorse here these national policies and to elaborate upon them only in the instances of especial hardship to B.C.'s heavy construction contractor.

CANADIAN CONSTRUCTION ASSOCIATION'S
TAXATION POLICIES

9. The Canadian Construction Association has urged since 1958 that the Federal Government use taxation policies to a greater extent to stimulate capital investment and increased production as well as to collect revenue. Incentives offered to provincial and municipal governments in the form of grants, low cost loans, etc., have received prompt response; business and finance may be expected to do likewise if effective incentives are offered. "Private works" provide some 75% more on-site employment than public works.

RECOMMENDATIONS

10. (i) Expansion of the accelerated capital cost allowance program with special attention being given to manufacturing and construction equipment.

(ii) Amendment of the Income Tax Act to provide for the optional use of the "completion" method of accounting by contractors in filing their corporate income tax returns.

(iii) Extension of the exemptions from Federal Sales Tax so as to include all construction materials and equipment and particularly that these exemptions apply to those items now available to Provincial and Municipal Governments on a tax free basis.

CAPITAL COST ALLOWANCE

11. The modern heavy construction contractor, to remain solvent, has had to become highly competitive, continually developing more economical production methods. Having recognized that one machine's production can replace the efforts of many men, the heavy construction industry has become highly mechanized. The advent of the machine into the heavy construction industry also made possible enormous engineering feats previously prohibitive due to cost. The increase in engineering construction has promoted greater progressive production of machinery. Just as it had been discovered that one

mac "1 replace many men, it was soon apparent that one large machine could replace a number of smaller ones. Also, advancements in design and power have accelerated the production of new machines with greater production capacity than predecessors.

12. Appendix B shows the change in models of equipment handled by one of the major equipment manufacturers between 1956 and 1963. Each change in model is a result of design changes giving greater productivity.

13. The self-propelled scraper, which has become one of the essential tools of the road building contractor, is a good example of change. The DW21 purchased in 1958 has been replaced by two new lines, the 619 and the 631, with ten different models of these available in 1963. The contractor can choose from these ten models that machine which will give him the most economical production on a particular project.

14. The contractor working on engineering projects in British Columbia is working in some of the most rugged terrain in the country. Construction equipment is required to work on mountainous slopes, on rock bluffs, in the midst of streams or rivers, in sand, mud, gravel or in dense brush. Under such conditions wear and damage to equipment is extensive and equipment maintenance costs are extremely high. Special equipment is frequently required which often has no use after the completion of the contract.

15. It is evident that, owing to the highly specialized nature and rapid depreciation and obsolescence of contractors' equipment, that the 30 per cent Capital Cost Allowance permitted under Class (10) is inadequate.

16. Prior to 1948, depreciation was allowed on a straight line basis with rates being determined for various types of assets. In 1948 with the introduction of the Income Tax Act the Diminishing Balance method of computing the write-off was established. In almost

all instances the allowable rates for computation of Capital Cost Allowance were double the rates permitted under the old depreciation methods, (i.e., office equipment and most plant and equipment of manufacturers was increased from 10 per cent straight line method to 20 per cent Decreasing Balance Method). This was not the case with contractors' moveable equipment which formerly enjoyed a rate of 20 per cent and was increased under the revised Capital Cost Allowance schedules only to a maximum of 30 per cent. This permits a write-off of only 65.7 per cent of contractors' equipment over a three year period. As stated earlier, this is inadequate as a contractor is required to utilize his equipment under the most adverse conditions, literally demolishing it in the performance of his contracts.

17. In addition to the tremendous depreciation suffered by equipment in the ordinary course of business, rapid technological changes and research by equipment manufacturers render equipment obsolete in a very short period of time. One must only consider the changes in the so-called D-8 Cat. which have taken place during the past few years. (See Appendix B.) The substantial increase in horsepower in the motors and the latest type of dozing and ripping equipment makes a pre-36A Series Cat. virtually obsolete in the presence of these new mechanical improvements. Rock drilling methods also have changed substantially with the advent of the modern air trac as compared to the jackhammer, wagon drill and other not too old methods of rock drilling.

18. It is respectfully submitted that the rate of Capital Cost Allowance permitted on contractors' mobile equipment should recognize this rapid depreciation and obsolescence by being increased to 40 per cent, thereby permitting a contractor to write off 78.4 per cent in the first three years of operation. This, it can be shown, more realistically reflects the true value of mobile construction equipment after three years of operation.

19. The heavy construction industry is frequently called upon to meet the most stringent completion dates and upon whose operations the elements have almost complete control. Under these conditions a

contractor is often required to work on a multi-shift basis, six or seven days a week. This excessive use of equipment results in a very rapid physical depreciation of the equipment which, under the existing Capital Cost Allowance regulations, is not recognized. Under the present regulations a contractor is penalized by being restricted to a fixed depreciation, irrespective of the length of his shifts and hence at the completion of a major project is taxed on unearned profits as the depreciation allowed is frequently 50 per cent of the actual depreciation suffered.

20. An example of the inequity which arises occurred with one of our members who, during the course of construction of a major hydro electric development, was required to operate on two 10-hour shifts per day, seven days per week. This was not a choice made by the contractor but was necessitated by the very nature of the project which required the impounding of water behind an earth-filled dam within a prescribed time. At the completion of the project the equipment was offered for sale at fair market prices, having due regard to its depreciated state. After six months of fruitless attempts at sale the equipment was divided by the two companies forming the Joint Venture and valued at the prices at which it had been offered for sale, less 10 per cent for anticipated selling expenses included in the original selling price.

21. The Income Tax Department could not recognize the reduction in value and required the assets to be transferred to the respective companies at net book value being the original cost less allowable Capital Cost allowances. This resulted in an increase in taxable income of some \$200,000 to each of the contractors and was a crippling blow in light of the nominal profits made on the project and particularly in view of the fact that the equipment was substantially over-valued on the basis of the Tax Department evaluations.

22. This situation would not have occurred had the contractor been permitted to claim accelerated depreciation for such portions of the year as the equipment was used on the multi-shift operation.

23. It is respectfully submitted that the heavy construction industry should be permitted, in addition to the normal depreciation allowed under Capital Cost regulations, to claim accelerated depreciation on equipment which works on a multi-shift basis. This accelerated depreciation could be calculated on a pro-rata basis, based on the additional shifts or hours worked over normal.

COMPLETED CONTRACT METHOD
OF REPORTING INCOME

24. The present method of income tax assessment with regard to reporting the profit or loss on contracts in progress, is roughly as follows:

- (a) The income is determined by using the progress estimates received to the end of the fiscal period.
- (b) All contract expenses to the end of the fiscal period are deducted from the income determined under Item (a).
- (c) The net operating profit or loss as determined above, is reported for income tax purposes in the respective taxation year.

25. The above method of computing profit or loss is not, in a large number of cases, a satisfactory means of profit determination for the following reasons:

- (a) No recognition is given to the fact that Progress Estimates are not always accurately determined on a month-to-month basis; whereas, the final Estimate is calculated exactly to the extent that measurements and quantities are verified at that time. On a month-to-month basis, these are usually estimated.
- (b) During the early stages of a contract, a large number of expenses are properly deferred expenses, such as move-in and set-up expense, initial supplies shipped in, and various mobilization and organization expenses.

() An instance of distorted earnings could result if in the early stages of a contract no hazards were expected or encountered so that this stage of the contract would show a profit, whereas in the latter stages of the contract certain hazards were expected or encountered resulting in this stage being carried out at no profit, or even a loss. If the above situation occurred during two separate taxation years, income taxes would be paid in the first year, on the more or less unrealized profit; whereas, in the second year, no profit might exist - or, even a loss could occur, which should have been offset against the early stage profit. This is not possible under the present legislation.

26. We respectfully submit that consideration should be given to allow the completed contract method of reporting profit or loss on contracts for income tax purposes.

AVERAGING OF INCOME
FOR TAXATION PURPOSES

27. The contract volume and resulting profits or losses of Contractors are subject to wide fluctuations in various years. (Appendix C). This is largely due to the fact that almost all work performed is obtained by public tender. (Appendix D). It is further submitted that it is conceivable there might be no comparison between contract volume and resulting profits or losses. This is mainly due to two reasons. The first is that contracting, particularly heavy construction, is a very high risk business venture due to unforeseen factors at time of bidding, and unusual weather conditions being encountered during construction. The other reason is that economic conditions, particularly those present at this time, tend to vary profits or losses drastically.

28. The above situation is somewhat similar to that encountered by farmers and fishermen who are given some relief from an undue income tax burden in a particular year in which their earnings are abnormally high. This is accomplished by allowing them to average

earnings over a 5-year period and pay income taxes thereon at a somewhat average rate.

29. We respectfully submit that contractors should also be given the same opportunity to average their earnings over a 5-year period. One might think that this is not so significant in the case of contractors who, in most cases, are corporate entities filing corporation tax returns using a somewhat fixed rate of tax; whereas farmers and fishermen are, in most cases, proprietors or partnerships who file personal tax returns using graduated rates of tax. Generally speaking, this is true, except in a situation as indicated below:

| <u>Year</u> | <u>Taxable Income</u> <u>(Loss)</u> | <u>Approximate</u> <u>Income Tax</u> |
|---------------|--|---|
| 1957 | \$ 300,000.00 | \$125,000.00 |
| 1958 | 100,000.00 | 40,000.00 |
| 1959 | (200,000.00) | (40,000.00) |
| 1960 | (100,000.00) | --- |
| 1961 | (100,000.00) | --- |
| <u>TOTALS</u> | <u>-----</u> | <u>\$125,000.00</u> |

30. It is apparent from the above that over a 5-year period the company would have a Nil operating result, whereas it would have paid income tax to the extent of approximately \$125,000.00.

31. The above situation would eventually lead to bankruptcy of any enterprise, but if a 5-year average of profits was available, the potential income tax refund would certainly forestall the financial difficulties.

EXTENSION OF THE EXEMPTIONS
FROM FEDERAL SALES TAX

32. Under the budget proposals announced in the House of Commons this year, construction equipment purchased by Provincial and Municipal Governments will remain Federal Sales Tax exempt, while all construction equipment purchased by the contractor will be subject to tax.

33. The combined effect of the Federal and Provincial Sales Tax adds more than 16% to the contractor's purchase price. The exemptions given to Provincial and Municipal Governments constitutes unfair competition in that it tends to encourage these public bodies to buy construction equipment to carry out their own construction work. Thus is bred more "day labour" or "own forces" construction rather than the utilization of the more economical and efficient procedure of calling competitive tenders. If contractors were afforded the same exemptions, they would have a more equitable opportunity of carrying out their normal construction functions and thereby increasing their base for federal income tax.

34. The British Columbia Department of Highways is estimated to have an equipment fleet valued at \$30 million. It has been determined from the Minister of Highway's report for 1961-62 that approximately \$6 $\frac{1}{2}$ million was expended by that Department on a day labour basis for the construction or reconstruction of roads during 1962. An additional expenditure of \$1 $\frac{1}{2}$ million for materials, machinery rentals and surfacing brings the total to approximately \$8 million for day labour work for the one year.

35. The Department reports expenditures of \$2,250,000 for new equipment and \$4,100,000 for maintenance of machinery (repairs, fuel, etc.,) upon which no sales tax was paid.

36. This represents a sizeable tax loss to the Federal Government.

37. It has long been the contention of this Association, and has now been given firm support by the findings of the Royal Commission on Government Organization, that Governmental Agencies should not be in the construction business but should contract out to private industry. (Appendix E.)

38. The exemption from Federal Sales Tax for Provincial and Municipal purchases of construction equipment is an incentive to

undertake construction themselves that, to better advantage, should be called to public tender.

39. The Federal Government should provide leadership to lesser Governments. Through Federal Taxation policies, economic practices to the detriment of the Canadian people should be discouraged, and private enterprise, contributing to the economic expansion of the community and the nation, should be offered encouragement.

40. The Heavy Construction Association has appreciated the opportunity of making representation to this Royal Commission and sincerely hopes that the information and recommendations herein contained will assist in the determination of Federal taxation policies contributing to the betterment of the Canadian people.

GORDON R. HODSON,
General Manager.

APPENDIX A

MEMBERSHIP OF THE HEAVY CONSTRUCTION ASSOCIATION OF B.C.

ACTIVE MEMBERS:

EMIL ANDERSON CONSTRUCTION COMPANY LTD.
BEDFORD CONSTRUCTION CO. LTD.
BROWN & ROOT LTD.
JACK CUBE LTD.
CHRISTIANI & NIELSEN OF CANADA LTD.
CITY CONSTRUCTION COMPANY LIMITED
COLUMBIA BITULITHIC LIMITED
DAWSON CONSTRUCTION LIMITED
GENERAL CONSTRUCTION COMPANY, Division of Standard
Gravel & Surfacing of Canada Limited.
GILPIN CONSTRUCTION CO., LTD.
THE JAMESON CONSTRUCTION COMPANY LIMITED.
AL JOHNSON CONSTRUCTION CO., OF CANADA LIMITED.
HENRY J. KAISER COMPANY (CANADA) LTD.
PETER KIEWIT SONS COMPANY OF CANADA LTD.
JOHN LAING & SON (CANADA) LIMITED.
P. F. LAW CONSTRUCTION LIMITED.
G. H. LEDINGHAM & CO., LTD.
McPHAIL'S CONSTRUCTION CO., LTD.
MANNING CONSTRUCTION LTD.
MANNIX CO., LTD.
MARWELL CONSTRUCTION LIMITED.
NEW WEST CONSTRUCTION CO., LTD.
NORTHERN CONSTRUCTION COMPANY AND J. H. STEWART
LIMITED.
PATRICK CONSTRUCTION COMPANY LIMITED.
SQUARE M - COLEMAN.
E. R. TAYLOR CONSTRUCTION CO., LTD.
UNITED CONTRACTORS LTD.
VANCOUVER PILE DRIVING & CONTRACTING CO., LTD.
WATKIN AND TRIMBLE CONTRACTORS LTD.
WESTERN PAVING LTD.

JOINT VENTURES:

KAISER-GILPIN, A JOINT VENTURE.
KIEWIT-DAWSON-JOHNSON, A JOINT VENTURE.

AFFILIATE MEMBERS:

ALBERTA TRAILER COMPANY 1961 LTD.
CAL-VAN CATERERS LTD.
CANUS SERVICES LTD.
A & C KNIGHT LTD.
ROUTLEDGE GRAVEL CONTRACTORS LTD.
WESTERN CATERING LIMITED.
WEST COAST TRAILER SALES CO.

MEMBERSHIP OF THE HEAVY CONSTRUCTION ASSOCIATION OF B.C. (cont'd)

ASSOCIATE MEMBERS:

AIR EQUIPMENT SERVICE LTD.
ARROW TRANSFER COMPANY LTD.
BINGHAM EQUIPMENT CO., LTD.
THE BRITISH AMERICAN OIL COMPANY LIMITED.
BRITISH COLUMBIA CEMENT COMPANY LIMITED.
B. C. EQUIPMENT COMPANY LTD.
CANADIAN ACCEPTANCE CORPORATION LIMITED.
CANADIAN INDUSTRIES LIMITED.
CANADIAN MOTOROLA ELECTRONICS COMPANY.
CANADIAN TRAFFIC CONTROL LTD.
DIETRICH-COLLINS EQUIPMENT LTD.
FINNING TRACTOR & EQUIPMENT CO., LTD.
HOME OIL DISTRIBUTORS LIMITED.
IMPERIAL OIL LIMITED
LAFARGE CEMENT OF NORTH AMERICA LTD.
LESLIE WRIGHT & ROWE LTD.
G. H. PHILPOTT CO. LTD.
PURVES RITCHIE LIMITED.
ROLLINS MACHINERY LIMITED.
ROSCO METAL PRODUCTS LTD.
SHELL OIL CO., OF CANADA LTD.
STANDARD OIL COMPANY OF BRITISH COLUMBIA LTD.
VANCOUVER EQUIPMENT CORPORATION LIMITED.

APPENDIX B

SERIES BY YEARS - ALSO YEARS OF MAJOR CHANGES

| | <u>D2</u> | <u>D4</u> | <u>D6</u> | <u>D7</u> | <u>D8</u> | <u>D9</u> | <u>933</u> | <u>955</u> | <u>977</u> | <u>DW21</u> | <u>619</u> | <u>631</u> | <u>212</u> | <u>112</u> | <u>12</u> | <u>14</u> |
|---------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|-------------|------------|------------|------------|------------|-----------|-----------|
| Current | X | D4D | D6C | D7E | D8H | D9G | F | H | H | X | C | B | X | E&F | E | D |
| 1963 | X | | | | | | | | | | | | | | | |
| 1962 | X | | | | | | | H | | X | | | X | | | |
| 1961 | X | | | D7D | D8H | | | | H | X | C | A | X | | | |
| 1960 | X | D4C | | | | | | H | H | | C | | X | E&F | E | C |
| 1959 | X | | D6B | D7D | D8H | D9E | | | | | B | | X | | | B |
| 1958 | X | | D6B | | D8G | D9D | F | E | E | G | | | | | D | |
| 1957 | X | D4 | D6 | | D8F | | E | | | D | | | | | | |
| 1956 | 5U | D4 | D6 | D7C | D8E | D9D | C | C | D | C | | | | | C | |

Area of greatest expansion and largest expense.

1956 3)

1957 3)

1958 3) No. of

1959 3⁻¹) Current

1960 3) Models

1961 3⁻²)

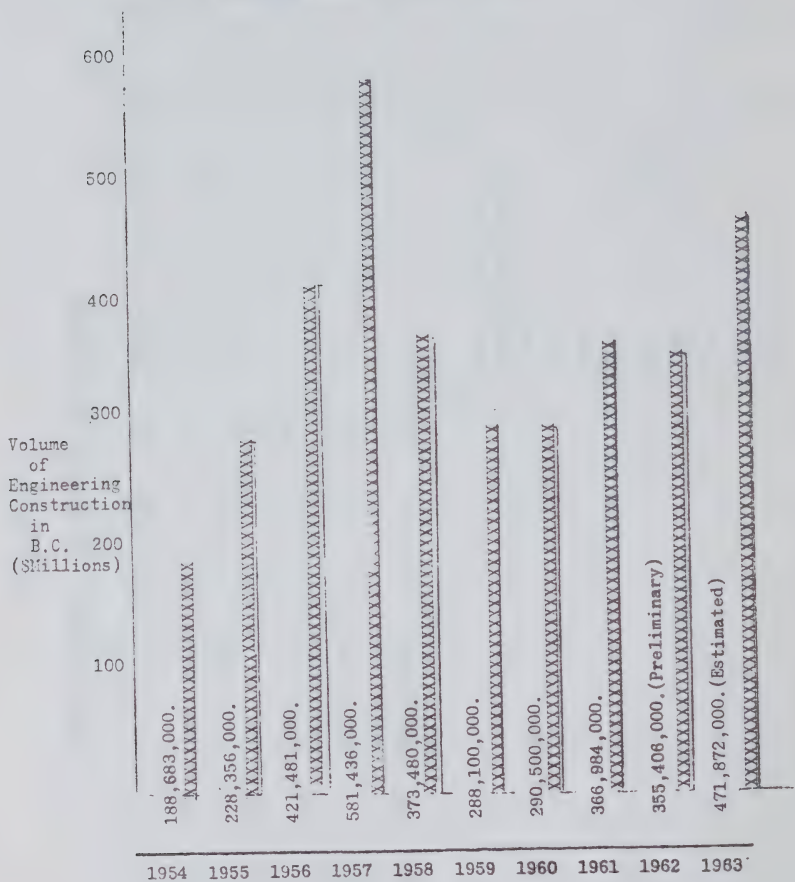
1962 10 +7

1963 10

LRB 25/7/63

APPENDIX C - 1

ENGINEERING CONSTRUCTION IN B.C. 1954 - 1963 (From Dominion Bureau of Statistics)



APPENDIX C - 2.

ENGINEERING CONSTRUCTION IN B.C. 1954 - 1963
AND PERCENTAGE CHANGE FROM YEAR PREVIOUS

| Year | Volume of Engineering Construction In B.C. | % Change From Year Previous |
|------|---|--------------------------------|
| 1954 | \$188,683,000. | |
| 1955 | 228,356,000. | +17.5 |
| 1956 | 421,481,000. | +45.6 |
| 1957 | 581,436,000. | +27.5 |
| 1958 | 373,480,000. | -35.8 |
| 1959 | 288,100,000. | -24.6 |
| 1960 | 290,500,000. | + 3.2 |
| 1961 | 366,964,000. | +20.8 |
| 1962 | 355,406,000. | - 3.3 |
| 1963 | 471,872,000. | +24.6 |

APPENDIX D

ENGINEERING CONSTRUCTION PUBLIC CONTRACT AWARDS IN B. C.

1956 - 1962

(Source Mclean Building Reports Division)

\$175,000.

\$150,000.

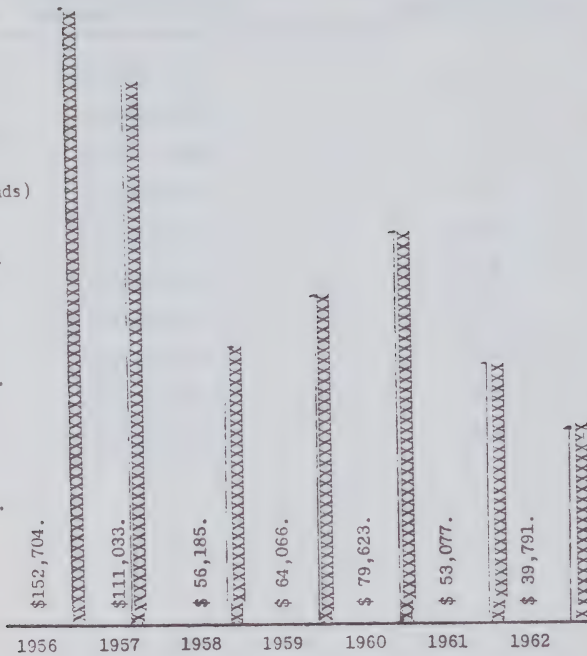
\$100,000.

(\$Thousands)

\$75,000.

\$50,000.

\$25,000.



THE HEAVY CONSTRUCTION ASSOCIATION OF B.C.

Excerpts from Report
of the
Royal Commission on Government Organization
Volume 2
Supporting Services for Government

Terms of Reference

By Order-in-Council pursuant to the Inquiries Act the Commissioners were directed to -

- ".....inquire into and report upon the organization and methods of operation of the departments and agencies of the Government of Canada and to recommend the changes therein which they consider would best promote efficiency, economy and improved service in the despatch of public business, and in particular but without restricting the generality of the foregoing, to report upon steps that may be taken for the purpose of
- eliminating duplication and overlapping of services;
 - eliminating unnecessary or uneconomic operations;
 - achieving efficiency or economy through further decentralization of operations and administration;
 - achieving improved management of departments and agencies, or portions thereof, with consideration to organization, methods of work, defined authorities and responsibilities, and provision for training;
 - making more effective use of budgeting, accounting and other financial measures as means of achieving more efficient and economical management of departments and agencies;
 - improving efficiency and economy by alterations in the relations between government departments and agencies, on the one hand, and the Treasury Board and other central control or service agencies of the government on the other; and
 - achieving efficiency or economy through reallocation or re-grouping of units of the public service.

General Introduction

"..... in each of the supporting services examined in this volume, a common question arises: the choice to be made by the government between maintaining its own internal sources of supply for goods and services, and obtaining them by purchase or hire from external sources. This 'make or buy' problem recurs throughout the following reports, and is further examined, in a report by that name, in relation to a wide range of specialized government activities for which commercial sources might be employed. In this regard, your Commissioners have been guided by the general principle set forth briefly in the first report; that, where circumstances permit, the use of outside sources is preferable from the viewpoint of the government and the public alike. For the former, it reduces the distractions from the essential task of defining and attaining the goals of public policy; for the latter, it provides a means of strengthening the private sector of the economy."

Construction - Civil Departments and Agencies

Contracting -

".....The general conclusion that, in the absence of the most compelling reasons, the government should buy rather than make has nowhere greater relevance than in the field of public construction. While the great bulk of such work is today executed under contract, there are discernible tendencies in some departments to get into the business themselves. Unless strictly checked, the practice of buying equipment and recruiting construction personnel for departmental purposes may be expected to grow to serious proportions. Your Commissioners' recommendation for the centralization of construction activity should be interpreted as rendering impossible in future the development of minor construction empires under any guise."

The "Make or Buy" Problem

Faulty Construction Information -

".....In brief, comprehensive costs to measure the efficiency of government operating activities are not available, except in isolated cases. Nevertheless, many public servants appear convinced that departments produce goods and services more cheaply than private enterprise. They ignore the fact that true costs exceed the figures provided by their accounts by fifty per cent or more. Despite the absence of true cost figures, the cost savings are often cited to support a decision to 'make' rather than 'buy'."

Faulty Cost Information

Your Commissioners' report on Financial Management sets forth the characteristics of the accounting system of the Government of Canada that distinguish it from industrial and commercial systems. Government accounts are kept on a cash, as opposed to an accrual, basis and no clear or useful distinction is made between current and capital expenditures. Little or no account is taken of extra-departmental costs such as rent, maintenance, heating, cleaning, water, light, power or employees' fringe benefits (superannuation, unemployment and health insurance, and accident compensation); no charges are made for such services as mail and telephone. Moreover, no allowance is made for the depreciation of capital facilities; no interest cost is computed for the use of capital or working funds; no allocation is made of grants in lieu of municipal taxes; and, of course, no account is taken of income taxes.

Means of Control -

".....We therefore recommend that:

- 1 The Treasury Board and senior departmental management review all requests for additional staff and facilities to be devoted to the conduct of secondary activities to determine whether the government's new or increased need could not, alternatively, be satisfied by the use of private resources and facilities.
- 2 Accurate and comprehensive cost analyses be prepared to support all requests of such nature.
- 3 Periodic cost investigations be carried out in respect of all existing programmes of secondary activity, and departments and agencies be required to show cause why these should be continued whenever non-government sources can supply the goods or services at equal or lesser cost.

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

EDMONTON

ALBERTA

VOLUME No.:

DATE:

39A

AUG. 19, 1963

BRIEF

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

BOARD OF TRADE BLDG.

11 ADELAIDE ST. W.

TORONTO

364-5865 364-7383



1
2
3 TO: The Chairman and Members,
4 Royal Commission on Taxation.
5

6 Gentlemen:

7 The Edmonton Chamber of Commerce appreciates
8 the opportunity of presenting to you this sub-
9 mission on taxation.

10 The Chamber is composed of some 1800
11 individual members representing over 1200 business
12 and professional firms in Edmonton, along with
13 agriculture. One of the principle objects of
14 this Chamber is to promote, encourage and develop
15 trade and commerce within the Edmonton District
16 and between the Edmonton District and other parts
17 of Canada and elsewhere.

18 At this juncture in Canada's economic
19 development, we consider this Commission to be
20 most timely and we trust that you will find our
21 recommendations constructive.

22 Respectfully submitted,
23
24

25 (Sgd) R.N. Harvey,
26 President.

D. F. Marlett,
General Manager.

SUMMARY OF RECOMMENDATIONS

General Recommendations:

1. Before any decisions concerning our basic tax structure are made, a detailed study of who bears the burden of corporate and personal income taxes and of excise and sales taxes should be made, then a policy should be established as to who should bear the burden.
2. If basic changes in our tax structure are required, they should be preceded by a programme to inform and educate the public at large as to the reasons for, and the results to be obtained from, such changes.
3. The basic principles of the tax policy should be established and made public. The taxing statutes should be as simple, precise and equitable as possible.
4. A planning group of senior personnel of the Department of Finance should be charged with continuous study of our tax structure and of planning improvements.
5. Taxpayers should be made aware of the amount of income, excise and sales taxes that they pay.

The Income Tax Act

6. Capital Gains

No capital gains tax be imposed but that Section 139(1)(e) be changed so that it is clearly established what is meant by business income.



6. Capital Gains Contd.

In addition, special provisions for taxing short-term real estate profits should be introduced in order that they may attract tax at a more reasonable rate.

7. Advance Rulings

Officials of the Taxation Division of the Department of National Revenue should be empowered to make advance rulings as to the tax position of proposals outlined to them and these advance rulings should be binding on the Crown.

8. Incentives

That the Royal Commission on Taxation study in depth the role of the tax structure in controlling Canada's economic future and the place of tax incentives, whether general or specific, in any such role.

9. Corporate Tax Rate

That consideration be given to lowering the corporate income tax rate.

10. Secrecy Re. New Legislation

That proposed changes in tax legislation be made public well in advance of introduction to parliament and also that such changes be referred to a committee of the House of Commons to enable a full detailed examination of the legislation.

11. Depreciation

That far more latitude should be given the businessman as to when depreciation is



11. Depreciation Contd.

claimed for income tax purposes.

12. Personal Tax Rate

That the maximum rates of federal and provincial personal income tax should not exceed the maximum corporate rate in Canada at the present time.

13. Corporate Surplus

That a clear policy be established concerning the distribution of corporate surplus and that the law to implement the policy be clear and straightforward.

14. Business Expenses

That taxpayers should be allowed to recover all of their legitimate business expenses either as an allowable expense in the year incurred or by way of capital cost allowance. This would not, of course, apply to capital assets owned by the taxpayer which do not depreciate in value through use.

15. Co-operatives

That a review be made of the taxation policy pertaining to co-operatives of all kinds to determine whether the incentives they enjoy are justified in every case considering our free enterprise system and the loss of tax revenue.

16. Personal Corporations

That those portions of the Income Tax Act dealing with personal corporations be revised so that a taxpayer is no worse off taxwise if income



16. Personal Corporations Contd..

is received through a personal corporation than
if it is received through direct investment.

17. Associated Companies

That the Associated Company provisions of
the Income Tax Act be reviewed with the view of
eliminating inequities that now exist and that
consideration be given to allowing associated
companies to file consolidated corporate tax
returns under certain conditions.

18. Oil and Gas Companies

That when an oil or gas right is sold that
was acquired prior to April 10, 1962, that the
cost of the right be deducted in determining the
income from the disposition.

19. Oil and Gas Companies

That special provisions be enacted to deal
with purchases and sales of oil and gas rights
between affiliated companies.

20. Oil and Gas Companies

That income arising from the disposition
of oil or gas rights be eligible for depletion
allowances.

21. Oil and Gas Companies

That if it is desirable to provide an
incentive by way of depletion allowances to
companies in the oil and gas industry, that
consideration be given to permitting depletion
to be calculated (at some lower rate) on profits
before the deduction of drilling and exploration
expenses.



1 Estate Taxes and Family Businesses

2 22. Family Businesses

3 That consideration be given to increasing
4 the estate tax exemptions materially in order to
5 lessen the burden on owners of small or medium
6 family businesses. An alternative to this might
7 be to allow very liberal valuation allowances
8 on investments in private companies.

9 23. Valuation

10 That the date of valuation of all assets
11 of the deceased passing on death should be either
12 the date of death or some alternate date following
13 death, say, six months, and that the choice should
14 be at the option of the estate.

15 The Excise Tax Act

16 24. Sales Tax

17 That the whole philosophy and policy
18 concerning sales tax in Canada be reviewed and in
19 particular that consideration be given to replacing
20 the present system with a retail sales tax or a
21 turnover tax which would be far simpler to administer
22 and to enforce.

23 25. Sales Tax

24 That if the present basis is retained, that
25 the entire act and regulations be reviewed in order
26 to:

- 27 a. Simplify the administration required
28 of the government and the taxpayers,
29 b. Greatly reduce the present number
30 of exemptions,



25. Sales Tax Contd..

- c. Terminate the present inequities between licensed and unlicensed manufacturers and wholesalers,
- d. Reduce to a minimum the situations requiring the filing of refund claims,
- e. Place the responsibility for exemption certificates on the purchasers who use them and,
- f. Establish adequate and complete appeal procedures.

GENERAL

1. In Canada, as in other countries, ever increasing sums of money must be made available to our Federal, Provincial and Municipal Governments to meet the cost of government and the expanding services which we, as voters, have insisted that government provide us with. If we assume that government costs and expenses will be kept to a minimum (and the implementation of the reports of the Glassco Royal Commission will be a major step in this direction) the major part of the necessary sums of money must be raised by taxation. We, as Canadian citizens, cannot have the supposed advantages of a welfare state without bearing the costs of a welfare state.
2. Once it has been determined what monies must be raised through taxation, the next step is to determine on whom the burden of this taxation should fall. In Canada, at the present



1 2. time, the Federal Government levies income
2 taxes on individuals and corporations, estate
3 taxes on accumulated wealth, and sales and
4 excise taxes on consumer spending. It is
5 difficult enough to determine who bears the
6 burden of most forms of taxation such as sales
7 and excise taxes and personal income taxes,
8 but there appears to be a greater degree of
9 uncertainty as to who bears the corporate
10 income tax burden. Is it passed on to the
11 consumer, included in the price of the product;
12 is it passed to the shareholders as a reduction
13 in the earnings on their investment; or
14 is it passed on to the employees through lower
15 wages? Many believe that it is passed on to
16 the consumer in the price of the product.

17 3. In this regard, it is interesting to
18 note that if corporate income tax is passed on
19 to the consumer as a element of product price,
20 it becomes, in reality, a sales tax. It is,
21 however, a sales tax with no exemptions for
22 necessities such as food, and as a result it
23 is a regressive tax so far as Canadian consumers
24 are concerned. It is also a sales tax with no
25 exemption for export goods and this makes it
26 difficult for our exporters to compete in price
in the world market place. If this is the case,
it would appear to be preferable to greatly
reduce the existing high corporate tax rates
and substitute sales taxes to make up the needed



3. Contd...

revenues. This might also necessitate some changes in non-resident withholding taxes.

4. In order to properly establish a policy as to the manner in which the government's fiscal requirements are to be raised through taxation, it is therefore extremely important that accurate information be available to show the ultimate distribution of the taxes imposed under any proposed scheme.

5. Once it has been determined who will bear the tax burden under the various methods available to levy tax, it must be decided which of the various methods is preferable, from economic, administrative and political points of view. It has been stated that ideally taxation should not be a major consideration when individuals or businesses are making decisions about earning, spending, saving or investment. Although there are many other points which could be mentioned, the objectives should be to raise the required tax monies cheaply with the least damage to either the economy or to the consumer. Our economy is very sensitive to the effect of taxation, and a tax policy can be either an incentive or a deterrent. We also cannot form our tax policy without consideration of its effect on other countries or without consideration of the effect of other countries' policies on Canadian businesses and individuals.



1 6. The taxation policy that is decided upon
2 must be politically acceptable in order to be
3 practical. In the past, any suggestion that
4 corporate income tax be reduced; that dividends
5 from taxable corporations be exempt from further
6 tax in the share-holder's hands, or that the
7 extremely high top rates of personal tax be
8 reduced, have been politically unpopular with
9 the mass of the voters. This appears to be
10 largely due to ignorance on their part of the
11 influence that taxation bears on the economy of
12 Canada as a whole. Any major changes in our
13 tax laws which may be politically unpopular
14 should therefore be preceded by an intensive
15 program to inform and educate the public at
16 large as to the need for and benefits to be
17 obtained from the changes. Such a program
18 might make a policy acceptable politically
19 that might otherwise be unacceptable.

20 7. The basic principles of the taxation
21 policy should be definitely established so
22 that they may be expressed clearly in the law.
23 The statutes which set forth the law should
24 combine simplicity and economy of administration
25 with legal precision and equity. However the
26 desire to achieve precision and equity should
27 not be carried to the point where the principles
28 involved are obscured by a maze of technical
29 provisions. As an example, the recent incentive
30 provisions for production and for scientific



1 7. research are extremely complex.

2 8. In order to properly administer a tax
3 policy, it is necessary to have a sufficient
4 number of the well-qualified senior members
5 of the Department of Finance given the job of
6 studying the taxation system in Canada and of
7 planning improvements, but these members should
8 be given adequate time to do this very important
9 work. A group such as this would prevent the
10 taxing statutes from becoming a "patch-work
11 quilt" which is the current state of the Income
12 Tax Act as a result of the tug-of-war between
13 the tax collectors and the taxpayers in recent
14 years. The senior personnel in the Department
15 of Finance and the Department of National
16 Revenue are diligent and able people, but there
17 are not enough of them and they do not have
18 sufficient time to do this very important work.
19 We do not feel that a change such as this would
20 mean a permanent increase in the staff of the
21 Department since their work should result in
22 staff reductions in the future.

23 9. We feel that is extremely important that
24 every taxpayer be aware of the amount of tax,
25 be it income, sales or excise, that he pays.
26 This would apply equally to "hidden" taxes
27 such as manufacturers sales tax and excise
28 tax, and to income taxes deducted from the
29 wage-earner at source. How many salaried
30 employees realize how much a year they pay to



9. Contd....

governments by way of income, sales or excise taxes?

Most of them are only concerned about whether or not they are entitled to an income tax refund when they file their return. A better knowledge and awareness of what it is costing them as taxpayers to run our government and provide the many services which are demanded today may make the Canadian people consider more carefully the advisability of an ever expanding government and increased welfare services. In other words, the people of Canada should be made aware of the costs to them of government administration and services today.

10. To summarize these general comments, therefore, the Edmonton Chamber of Commerce makes the following general recommendations:

1. Before any decisions concerning our basic tax structure are made, a detailed study of who bears the burden of corporate and personal income taxes and of excise and sales taxes should be made. Then a policy should be established as to who should bear the burden.

2. If basic changes in our tax structure are required, they should be preceded by a program to inform and educate the public at large as to the reasons for and the results to be obtained from such changes.



3. The basic principles of the tax policy should be established and made public. The taxing statutes should be as simple, precise and equitable as possible.
4. A planning group of senior personnel of the Department of Finance should be charged with continuous study of our tax structure and of planning improvements.
5. Taxpayers should be made aware of the amount of income, excise and sales taxes that they pay.

THE INCOME AND ESTATE TAX ACTS

1. Capital Gains

11. Section 139(1)(e) of the Income Tax Act defines "business" in such broad terms that almost any transaction can fall into its embrace. As a result, more and more transactions, which were once of a capital nature, are being taxed as business income. Real estate profits are, perhaps, one of the most common gains being attacked. When large profits of this kind, and some are very large, are taxed as ordinary income in the recipient's hands, the amount of tax can be confiscatory.
12. A capital gains tax would be very costly to administer, and would not, if experience in the United Kingdom and the United States is a



12. Capital Gains contd...

guide, produce very much revenue. In the U.S.A. the revenue from the capital gains tax is under 4% of the income tax revenue. Every taxpayer would be forced to maintain adequate records of his capital assets and this could be a difficult task. In addition, in a period of inflation, it is difficult to avoid taxing gains resulting from changing dollar values, and also difficult to determine in what year an accruing gain should be taxed.

13. Dr. Kenneth Eaton, a former Deputy Minister of Finance now a fiscal consultant in Ottawa, has described capital gains tax as "an estate tax in a hurry".

14. The Edmonton Chamber of Commerce recommends that no capital gains tax be imposed, but that Section 139(1)(e) be changed so that it is clearly established what is meant by business income. Perhaps the portion of that section beginning "or undertaking" and ending "nature of trade" could be deleted. In addition it is recommended that special provisions for taxing short term real estate profits be introduced in order that they may attract tax at a more reasonable rate. For example profits in real estate held less than five years could be taxed at the greater of 20% or the taxpayers' average rate of tax for the preceding three years, and profits on real estate held more than five



14. years could be treated as capital gains.

II. Advance Rulings

15. At the present time it is not possible for a businessman to outline to taxation authorities a contemplated business transaction and obtain a definite ruling as to how it will be treated for income tax purposes. Instead, the answer is "You go through with it, and we'll tell you later how we'll treat it". This certainly helps to make business more exciting, but not always more enjoyable. While we understand that the taxation authorities would have to be provided with full details of any proposals to be ruled upon, we recommend that officials of the taxation division of the Department of National Revenue be empowered to make advance rulings as to the tax position of proposals outlined to them, and that these advance rulings be binding on the Crown.

III. Incentives

16. Taxation is used primarily as a means of raising revenues and as such is necessary in our present society. However, it is a matter for considerable debate whether the tax structure should also be used when the need arises as a means of stimulating industry, either industry in general or certain industries whose well being is of concern to the country as a whole. There have been incentives for certain industries incorporated in our tax laws for several years,



16. Incentives Contd...

such as the depletion allowances given to oil, gas, mining and timber industries, the three year exemption for new mines and the lower rates of corporate income tax paid by utility companies. In recent years there have also been incentive provisions enacted to correct certain unfavourable economic situations in Canada, such as the deficit in foreign trade and the availability of foreign exchange. These incentives have taken the form of lower tax rate on profits derived from increased sales, additional deductions from taxable income for expenses on scientific research and accelerated depreciation allowances for increased capital expenditure.

17. Objections have been raised against tax incentives because, it is claimed, they discriminate against some industries and as a result create inequities, and also that incentives are a tempting area for political interference. It has also been claimed that taxation incentives are not really very effective as a means of stimulating industry. This, perhaps, is true in many cases, but when one looks at the extraordinary success of co-operative enterprises in Canada due partly to the tax concessions they are granted, one is inclined to believe that incentives of this sort can be effective.

18. The Edmonton Chamber of Commerce recommends



18. that the Royal Commission on Taxation study in depth the role of the tax structure in controlling Canada's economic future and the place of tax incentives, either general or specific, in any such role.

IV. Lower Tax Rates

19. The section on incentives discussed the place of incentives in tax legislation in promoting and encouraging certain industries particularly important in the Canadian economy. The Edmonton Chamber of Commerce considers that private business and industry as a whole could stand a general "shot in the arm" such as an incentive in the form of lower over-all corporate tax rates. We believe that a rate of 50% (or more in certain provinces) is depressing, restrictive, and discouraging and that the general corporate rate should be less so that corporations are left with at least more than half of their profits. It is considered that a lower over-all corporate income tax rate would provide an incentive to all business to expand and re-invest earnings in business. It is only through rapid expansion of business enterprise that the thousands of new jobs are going to be created which will be necessary to absorb Canada's growing labour force and prevent unemployment from becoming a chronic problem.

20. A growing economy will provide a growing tax base and it is probable that adequate revenues



20. could be raised with lower corporate rates of income tax due to this growth. The Edmonton Chamber of Commerce therefore recommends that consideration be given to lowering the corporate income tax rate.

V. Secrecy Concerning New Legislation

21. At the present time, changes in income tax legislation are not made public before introduction into Parliament. As a result, Canadian taxpayers, their advisers and other interested parties are not given the opportunity to study the proposed legislation and to make constructive recommendations to the authorities concerning it. An example of problems which could be avoided are the recent amendments to Sections 83A(5a) and (5b) which create several apparent inequities. In addition, Members of Parliament are not given time to adequately evaluate the consequences of the legislation, and do not have the opportunity to obtain the advice of qualified taxation experts.

22. It is recommended that proposed changes in tax legislation be made public well in advance of introduction to Parliament, and also that such changes be referred to a committee of the House of Commons to enable a full, detailed examination of the legislation. Such a committee would also be able to hear evidence from qualified experts before reaching their decisions.

VI. Depreciation Allowances

23. When a new business is started or an existing

23. business is enlarged or modernized, large sums of capital must be expended on depreciable assets which, it is hoped, will pay for themselves over a period of years. In the early years of operation, the company may be making adequate profits according to generally accepted accounting principles, but may not be producing any cash for the investors since the borrowed capital for the equipment and plant must be repaid first. Based on the present system of capital cost allowance, however, the company will probably also find itself obliged to pay corporate income taxes even though the cash is not yet being made available from operations. The government, through the taxing authorities, who is the partner of every businessman insofar as sharing his profits, is not willing to wait, with him, for the paper profits to be realized in cash.

24. In many Western European countries, liberal depreciation allowances have been allowed to taxpayers, and it is probable that this has had a significant effect on the rapid expansion there. Mr. Jacques Barbeau, in the July-August 1961 edition of the Canadian Tax Journal states, "it is self-evident, even on the basis of limited information, that European depreciation allowances which include, in almost all instances, normal accelerated and investment depreciation deductions, are undoubtedly more liberal than the



24. "present Canadian depreciation provisions".

On the new budget provisions recently announced by Britain's Chancellor of the Exchequer, provision is made for new businesses in depressed areas to be allowed to write off capital equipment at any depreciation rate they choose.

25. We feel that the present system of capital cost allowances is unnecessarily restrictive for new business or expanding business and we recommend that far more latitude should be given the businessman as to when depreciation is claimed for income tax purposes.

VII. Personal Income Tax Rates

26. At the present time the higher amounts of personal taxable income are taxed Federally and Provincially at rates of from 55% on earnings from \$40,000 to \$60,000 to 80% on amounts earned over \$400,000. These higher rates of tax tend to stifle incentive and reduce the willingness of Canadians to take risks or work harder. We understand that if the top level of personal tax was reduced from 80% to, say, 50%, the loss in tax revenue at the present time would approximate \$10,000,000 whereas the recent increase in personal exemptions for each child from \$250.00 to \$300.00 will result in lost tax revenue of over \$40,000,000. Surely the only possible excuse for such unreasonable rates of tax could be political popularity. In Europe, which has been prosperous lately, the maximum personal tax rates in Sweden, Norway, Italy



26. and Germany were 65%, 55%, 58% and 53% respectively.

27. We recommend that the maximum rates of Federal and Provincial personal income tax should not exceed the maximum corporate rate in Canada at the present time.

VIII. Distribution of Corporate Surplus

28. One of the most difficult areas in our Income Tax Act and one on which tax experts spend many valuable hours, is the general problem area of distribution of corporate surplus. As is well-known, in Canada a corporation is taxed on its earnings, and then the shareholders are taxed on dividends received by them (at a reduced rate due to the 20% dividend credit). Under ordinary circumstances, this method presents a few problems to shareholders, but when, for example, a very large surplus is built up in a closely held company and it becomes necessary to remove it, a severe tax burden can result if a dividend is paid. There are numerous alternate methods of removing surplus at a lower tax cost set out in the Act which appear to indicate that the Government feels that a flat rate of tax of about 15% is acceptable. However these methods appear to have been made as difficult and awkward as possible. We understand that a study is being made by the Department of Finance on problems of designated surplus and the distribution of corporate surplus. We hope that a clear policy will be established and that the law to implement



28. the policy will be clear and straight forward. It is extremely necessary that this study be completed as soon as possible. One unfortunate result of the present legislation is that non-resident companies are often in a more favorable tax position to acquire Canadian companies than resident companies and this is due to the designated surplus provisions in the Act.

IX. Business Expenses.

29. Under the present Income Tax Act, a business expense must satisfy two tests:

1. It must be incurred for the purpose of gaining or producing income from property or a business (Section 12(1)(a)) and
2. It must not be incurred on account of capital (Section 12(1)(b)).

30. In many cases an expense may qualify under 12(1)(a) but fail under 12(1)(b). Where the expense is one which will qualify for capital cost allowance this failing is not too serious. In some cases, however, the expense does not qualify for capital cost allowance, and in such a case the penalty is severe. Examples of situations are many:

- a. Payment to a contractor to acquire from him a construction contract (No. 392 v M.N.R. - T.A.B. 1957)

/cont..



30. b. Purchase price of a fixed period
contract to purchase newspaper
(Southam Co. v M.N.R. - T.A.B. 1955)

31. We recommend that taxpayers should be
allowed to recover all of their legitimate
business expenses either as an allowable expense
in the year incurred or by way of capital cost
allowance. This would not of course apply to
capital assets owned by the taxpayer which do
not depreciate in value through use.

X. Co-operatives

32. In Canada today co-operatives are afforded
favorable treatment under our Income Tax Act.
They are allowed a three year tax exemption when
starting up similar to the exemptions granted
to new mines. In addition, they are allowed to
deduct from taxable income patronage dividends
to customers and members whether the dividends
are simply credited or actually paid out in cash.
These two advantages have enabled co-operative
enterprises in Canada to accumulate capital which
would otherwise have been paid in taxes and as
a result they have expanded very, very rapidly,
probably at the expense of non-cooperative
business and the taxing authorities. It is
apparent that these forms of tax incentives are
extremely effective.

33. It is interesting to note that many co-
operatives no longer confine their activities
to buying for and selling to their members only,



33. but deal with the public at large earning a normal profit and then distribute this profit to their members. The Canadian Government realizes much less tax revenue from these co-operatives than from a non-cooperative business.

34. The Edmonton Chamber of Commerce recommends that a review be made of the taxation policy pertaining to co-operatives of all kinds to determine whether these incentives are justified in every case, considering our free enterprise system, and the loss of tax revenue.

XI. Personal Corporations

35. The concept of a personal corporation was apparently originally designed as a means of giving the usual corporate benefits to individuals who wished to have all their personal investments owned by a limited company while at the same time preventing the postponement or reduction of income tax on this investment income. The sections of the Income Tax Act dealing with personal corporations as they now stand operate in such a way that the shareholders are in many ways worse off taxwise than if the assets were owned personally. Shareholders of personal corporations lose the advantages of loss application to other income or other years' income; the deduction of charitable donations, and the privilege of spreading a recapture of depreciation. Corporate shareholders of a personal corporation get no exemptions from that part of their share



1 35. of personal corporation income represented
2 by dividends from other Canadian companies, nor
3 credit for foreign tax paid by the personal
4 corporation. Indeed, a personal corporation
5 has almost become something to be avoided at all
6 costs to many taxpayers.

7 36. The Edmonton Chamber of Commerce recommends
8 that those portions of the Act dealing with
9 personal corporations be revised so that a taxpayer
10 is no worse off taxwise if the income is received
11 through the personal corporation than if it was
12 received through direct investment.

13 XII. Associated Companies.

14 37. At the present time, companies which are
15 deemed to be "associated" are not each allowed to
16 pay corporate income tax at the low rate of 21%
17 on the first \$35,000 of taxable income. Instead,
18 they are taxed as if they were one company and the
19 \$35,000 subject to the low rate must be allocated
20 between them. The conditions which cause companies
21 to be classed as associated are based entirely on
22 ownership and control and do not take into con-
23 sideration the types of businesses that the companies
24 are in. This puts a substantial tax penalty on
25 the acquisition of small businesses by Canadian
26 managerial groups.

27 38. The Edmonton Chamber of Commerce realizes
28 that so long as there exist different rates of
29 corporate tax businesses must be prevented from
30 improperly splitting into many small operations



38. In order to qualify each operation for the low tax rate. We recommend, however, that the associated company provisions of the Income Tax Act be reviewed with the view of eliminating inequities that now exist. Perhaps businesses which are not engaged in similar types of operations should be allowed to claim the low rate of tax regardless of ownership or control. We also recommend that consideration be given to allowing associated companies to file consolidated corporate tax returns under certain conditions.

XIII. Purchase and Sale of Oil and Gas Rights

39. The recent amendments to the Income Tax Act made several important changes to Section 83A. These changes were, basically, that the cost of oil and gas rights acquired after April 10, 1962 will be considered to be exploration expense and therefore an allowable expense for income tax purposes, and that the proceeds of sales of oil and gas leases will be included in taxable income. No provision was made, however, for the deduction of the cost of a gas or oil right acquired prior to April 10, 1962 from the sale proceeds when it is sold and no special provisions were included to cover the transfer of oil and gas rights between affiliated companies. Due to the application of Sections 83A and 17(1), many normal corporate reorganizations may now be impossible. In addition, income arising from the sale of oil or



39. gas rights is not eligible for depletion allowances.

40. The Edmonton Chamber of Commerce recommends the following:

1. That when an oil or gas right is sold that was acquired prior to April 10, 1962, that the cost of the right be deducted in determining the income from the disposition.
2. That special provisions be enacted to deal with purchases and sales of oil and gas rights between affiliated companies.
3. That income arising from the disposition of oil or gas rights be eligible for depletion allowances.

XIV. Depletion Allowances - Oil and Gas

41. The Income Tax Regulations at present permit taxpayers who operate oil or gas wells (as well as certain mines) to deduct an allowance for depletion in computing their taxable income. The depletion allowance is 33-1/3% of the profits reasonably attributable to the production of oil and gas, and drilling and exploration expense must be deducted in the determination of these profits. This means that companies who are active in exploration work may receive far less benefit from depletion allowances than companies who do little or no development work. This can also put Canadian companies at a competitive



41. disadvantage in comparison to American firms who are subject to American tax.

42. The Edmonton Chamber of Commerce recommends that if it is desirable to provide an incentive by way of depletion allowances to companies in the oil and gas industry, that consideration be given to permitting depletion to be calculated (at some lower rate) on profits before the deduction of drilling and exploration expenses. This would provide more incentive for drilling and exploration work, and would also put Canadian companies in a more competitive position in relation to non-resident operators.

XV. Estate Taxes and Family Businesses

43. One of the principal factors in the sale of so many Canadian family owned businesses to large companies, both Canadian and foreign, is our present Estate Tax Act. A Canadian who has built up a prosperous business in which most of his assets are tied up must naturally plan for what will happen on his death. Although he may wish his heirs to carry on his business, he must also recognize the estate tax which his estate will bear, and provide funds to meet it. He is, therefore, only too willing to sell his shares, probably for a capital gain, and realize on his investment. It is often difficult to arrange a sale to members of his family or his employees due to the amounts involved.

44. It is interesting to note the small amount



44. of estate tax collected in Canada relative to other sources of tax revenue. In 1961 the total estate tax revenue approximated \$85 million whereas corporate and personal income tax revenue approximated \$3,076 million and sales tax revenue approximated \$720 million.

45. The Edmonton Chamber of Commerce believes that it is extremely important to all Canadians to encourage in every way possible the formation, growth and retention of small and medium sized private businesses in Canada.

46. We recommend, therefore, that consideration be given to increasing the estate tax exemptions materially. This would still allow estate tax to fall heavily on the very large estates which probably account for a large part of the present revenue, and would lessen the burden on owners of small or medium family businesses. An alternative to this might be to allow very liberal valuation allowances on investments in private companies.

XVI. Estate Tax - Valuation

47. It is recommended by the Edmonton Chamber of Commerce that the date of valuation of all assets of the deceased passing on death should be either the date of death or some alternate date following death, say six months and that the choice should be at the option of the estate.

XVII. The Excise Tax Act

48. Manufacturers generally are unhappy with



1 48. the current sales tax procedures. The
2 legislation and administration both from the
3 viewpoint of the Manufacturer and the Sales
4 Tax Branch is overly complicated. The average
5 manufacturer or licensed wholesaler is forced
6 to incur abnormal administration costs each year
7 to maintain records, follow-up with customers
8 for certificates and licenses, determine end
9 uses of all purchases, and correspond with the
10 Rulings Branch in Ottawa for clarification and
11 rulings on the current legislation. The current
12 high rate of tax, 11%, makes it impossible for
13 manufacturers to treat sales tax lightly. Regard-
14 less of the time and money spent by most man-
15 ufacturers and wholesalers on sales tax, an
16 unnecessary amount of tax is paid by many because
17 of the complicated exemptions and rulings.
18 What this amounts to annually cannot be estimated,
19 however, the amount must be excessive in view
20 of the large number of former sales tax auditors
21 who have set themselves up as sales tax con-
22 sultants and work on a commission based on the
23 tax saved.

24 49. The Act sets out in general terms only
25 the items exempt from tax. All interpretations
26 and rulings must be obtained from the Rulings
27 Branch in Ottawa and result in unnecessary
28 delays in obtaining rulings. This generally
29 results in sales tax being levied followed by
30 a refund claim if a favourable ruling is obtained.



1 49. This creates unnecessary paperwork and strained
2 relations between customer and supplier. Cases
3 are not uncommon where inadequate information
4 is provided in an application for a ruling,
5 with the result that incorrect rulings are given
6 (either favourable or unfavourable) and the errors
7 do not come to light until sometime later. Local
8 sales tax branches do not interpret any of the
9 rulings and can provide a very minimum of
10 assistance to the taxpayer.

11 50. The attempt by the Act to distinguish
12 between direct production costs and indirect
13 costs has led to involved legislation requiring
14 separate rulings for each item and each industry.
15 These rulings handed down by the Rulings Branch
16 are not generally made available to all taxpayers.
17 It is not uncommon for one manufacturer to obtain
18 a favourable ruling on certain of his material
19 costs and all other manufacturers in the same
20 industry to continue paying tax.

21 51. A large number of items fall within the
22 regulation of "subject to sales tax at time of
23 purchase and refundable at time of installation".
24 For example, pipes, valves, and fittings must be
25 purchased sales tax included by the end user and
26 a refund claim submitted after installation. Such
27 a regulation is in order for small pipe valves
28 and fittings made of brass, copper or galvanized
29 metal which have many end uses, the bulk of which
30 are taxable. This general regulation, however,



51. also includes all items falling within the definition of pipes, valves, and fittings and makes it necessary for industries such as the oil, chemical, and pulp industries to pay tax on materials specially designed for their process to withstand corrosion and high temperatures and pressures. These products are almost always eligible for refund. This involves additional paperwork by industry and the government in preparing and auditing such claims, not to mention the tying-up of funds for a minimum of two to three months.

52. The present legislation results in inequities between licensed and unlicensed wholesalers. For example, a licensed wholesaler may purchase materials exempt from tax for sale to a manufacturer whereas an unlicensed wholesaler, who is unable to obtain a license because less than 40% of his sales are to tax exempt uses, must pay tax at time of purchase and claim a refund of 5.5%. This places the unlicensed wholesaler at a definite disadvantage when preparing highly competitive bids of the sale of his goods. Small manufacturers, particularly in the construction business, are frequently forced to abandon certain small manufacturing lines because of sales tax regulations. For example, a small business manufacturing plywood forms used in pouring concrete must collect sales tax on



52. the full selling price, including the value of the plywood which is normally unconditionally exempt from tax, manufacture the forms on the job and avoid all sales tax.

53. The Act holds both the licensed supplier and purchaser responsible for certificates issued on exempt goods. It is often difficult for the supplier to determine if a certificate is valid and an error may not come to light until the next sales tax audit some two years later when challenged by the sales tax auditor. The onus is on the supplier to provide any additional verification required from his customer. Any additional tax assessed at that time, including interest, must be paid by the supplier and is generally borne by him since it is most difficult to charge it back to the purchaser at that late date.

54. The purpose of the foregoing has been to set out a few of the more salient inequities and administrative problems of the manufacturer and wholesaler. To attempt to list all of the inequities pertaining to each industry would be difficult and time consuming and would serve no useful purpose.

55. The Edmonton Chamber of Commerce therefore recommends:

1. That the whole philosophy and policy concerning sales tax in Canada be reviewed. In particular that



55.

1. consideration be given to replacing
the present system with a retail
sales tax or a turn-over tax which
would be far simpler to administer
and to enforce.
2. That if the present basis is retained,
that the entire act and regulations be
reviewed in order to:
 - a. Simplify the administration
required of the government and
the taxpayers.
 - b. Greatly reduce the present number
of exemptions.
 - c. Eliminate the present inequities
between licensed and unlicensed
manufacturers and wholesalers.
 - d. Reduce to a minimum the situations
requiring the filing of refund claims.
 - e. Place the responsibility for
exemption certificates on the
purchasers who use them.
 - f. Establish adequate and complete
appeal procedures.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION

of

ALLAN WELSH

109 - Agency Building, Edmonton,

ACCREDITED PUBLIC ACCOUNTANT

SUBJECT MATTER-CANADIAN INCOME TAX ACT, BEING CHAPTER
148 R.S.C., 1952

Section 3 -- I recommend the addition of a Section 3-(d)
to read after Section 3 (c) "Capital Gains".

1. Philosophy of taxation:

a. A good tax system must be a fair tax system.

The present principle of excluding from tax the easy or
fast buck, in other words, capital gain, puts a premium
on slyness and ingenuity as opposed to the arduous
processes of businesses, offices or employments.

b. As a blooming industrial complex, we are no
longer primarily a nation of tillers and toilers. I
believe the rising magnitude of capital gains should
firstly be included in a realistic calculation of our
national income. This present omission has the effect
of seriously understating our national income, since
securities and other forms of capital gains are commodi-
ties differing in no essential way from other commodities,
and in times of inflation as well as depression, many
capital gains find their way into the income stream.

c. Our philosophy of taxation is that we exact
taxes from the "haves" to subsidize the "have nots".
This is reflected in the graduation of tax rates, the



1 higher exemption for the aged, etc. The exclusion of
2 Capital gains from taxation contradicts this philosophy,
3 and increasingly creates an economic gap which should be
4 arrested before Canada grows up. Our expanding affluent
5 middle class is an apparent anomaly re the economic gap,
6 but statistics show that theirs is a shallow prosperity
7 based on credit buying as we become more and more a
8 nation of debtors.

9 d. The basic principle that man creates nothing;
10 brings nothing into, and takes nothing out of this world,
11 is reflected in gift and estate tax. A capital gains
12 tax would bring credence to this principle.

13 2. Practical advantages of Capital Gains Tax

14 a. The burden in income tax would be relieved,
15 thereby benefiting all taxpayers including those subject
16 to capital gains tax.

17 b. Much of the energy of the taxpayer and the tax
18 department presently is used up in a maze of loopholes
19 in preventative regulations intended to minimize capital
20 gain recognition. These regulations are naturally exploit-
21 ed by the affluent who can afford to tackle the maze of
22 ambiguities and complexities which are beyond the under-
23 standing of the ordinary man. If capital gains were taxed,
24 the desperate efforts of entrepreneurs to beat the
25 regulations would no longer be as rewarding. Under the
26 existing act, we must already define capital gain, so that
27 the application of tax would be a simple matter of fairness.

28 c. Capital gains once determined as taxable should
29 should logically be included in our national income,
30 creating a proper picture of our economy and assisting in



1 economic planning. This should be done now while Canada
2 is a young nation and before the incongruity becomes
3 more pronounced.

4 3. Application of proposed capital gains tax:

5 a. Since the Act now operates to exclude tax on
6 capital gains, the reverse creates no administrative
7 problem. Generally speaking, we would define capital
8 gain as the excess of proceeds realized from the sale
9 or exchange of non-inventory (capital) asset, over its
10 book value, or sometimes in the determination of taxable
11 income, other bases of value.

12 b. Although we would presume a graduated tax on
13 capital gains, I feel that the detail of application
14 should be left with the administrators. This submission
15 merely requests the acceptance of the principle of
16 taxation of capital gain.

17 In reiterating my emphasis on urgency in this
18 matter I point to industrial and technological develop-
19 ments in Canada which could conceivably relegate much of
20 our tilling and toiling to machines, thereby disrupting
21 our philosophy of taxing only the more tangible fruits
22 of our labor. Net Worth appreciation by manipulation of
23 financial tools should be taxed the same as one's
24 appreciation by manual means.

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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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5 The City of Edmonton,
6 Purchasing Division,
7 3rd Floor, City Hall,
8 Edmonton, Alberta.
9

10
11 ORIGINAL SUBMISSION
12

13 TO
14

15 The Royal Commission on Taxation,
16 10th Floor Metcalfe Building,
17 88 Metcalfe Street,
18 P.O. Box 466,
19 Ottawa, Ontario.
20
21
22

23 July 15th, 1963.
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C O N T E N T S

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I - INTRODUCTION

Mr. K. LeM. Carter, Chairman; and Commission Members:

1. Please accept this as our submission of conclusions and recommendations representing various aspects of federal taxation as affecting our municipality, and municipalities in general, for which we request your earnest consideration.
2. We have endeavoured to be as reasonable as possible herein, inasmuch as we feel it is our duty to support the federal government in its revenue making policies to the limit of our ability, but at the same time feel a direct responsibility to our citizens in lightening their tax burden or in avoiding unnecessary additional taxation wherever statistics and logic indicate such action to be possible.

II - SUMMARY - A

3. We believe there exists many sound and logical reasons to substantiate increased and additional exemptions from the federal sales tax on commodity purchases made for many of the various "essential" public services operated by civic governments and strongly recommend action in this regard.
4. Included in these reasons are: the necessity of such services, increased operating costs of indispensable municipal functions, ever



4. increasing municipal debt with a resultant higher tax burden on municipal citizens, the effect on local employment and finally, the saving to municipal residents whose share of area growth costs is met partly from revenue received from municipally owned industries and manufacturing.

B

5. Further, it is our conviction that there exists a need for a more simplified and speedier method of bringing about necessary and practical amendments to the "Excise Tax Act" and suggest that an independent committee be established with powers to study and make recommendations on proposed changes, their findings to be submitted to the Ministers concerned for action without parliamentary approval and recommend that greater authority be given to regional senior tax officers to bring about practical local assistance by way of first hand rulings and interpretations.

III - CONCLUSIONS AND RECOMMENDATIONS

- AA

6. The existing "Municipalities" sales tax exemptions (originated April, 1954, amended March, 1957, June, 1958 and June, 1961), do not, in our judgment, adequately cover civic operations.
7. The essentiality of our various important,



- 1 7. necessary and indispensable civic services
2 is the prime motive causing us to conclude
3 and submit that increased and additional
4 exemptions from the federal sales tax on
5 commodity purchases therefore should be
6 granted, according to the aspects of our
7 operations described herein, even though
8 our municipality may have experienced a
9 greater than average growth than have other
10 civic governments in the past decade.
- 11 8. We are particularly confident in this opinion
12 since the entire historical structure of
13 Schedule III of the Excise Tax Act has to
14 date been designed to exempt "essentials"
15 such as; foodstuffs, hospitals, welfare
16 institutes, heating, sewage and drainage
17 systems, bridges and portions of fire fight-
18 ing, road making or road cleaning equipment.
19 Since the following essential operations not
20 only exist but appear to be equally or
21 exceedingly important to the general public
22 needs of health, welfare, protection, safety,
23 etc., such as in the case of municipal policing,
24 sanitation systems, sewage system construction,
25 pure water and electricity production and
26 distribution, civil defence departments,
27 health clinics, traffic communications systems
28 and particularly transit systems, should
29 warrant exemptions from the sales tax in
30 addition to fire fighting, road making and



8. road cleaning processes in their entirety.
9. In addition to the evidence substantiating additional exemption requests, we conclude that increased exemptions should also be granted by way of the removal of various restrictions presently in affect.
10. We believe that the third, fourth and fifth exemptions, as listed for "Municipalities" in Schedule III of the "Excise Tax Act", namely:

"Equipment at a price in excess of \$500.00 per unit, specially designed for use for road making, road cleaning or fire fighting but not including automobiles or ordinary motor trucks;"

"fire hose including couplings and nozzles therefor;"

and, "fire truck chassis for the permanent attachment thereon of fire fighting equipment to be used directly in fire fighting;"

should be deleted and should be replaced with two new individual exemptions, namely:

"equipment and materials for use directly for road or walkway construction, cleaning or maintenance;"



- 1 and, "equipment and materials for use
2 directly for fire fighting".
- 3 11. The \$500.00 minimum value of equipment should
4 be eliminated, walk areas, maintenance equip-
5 ment and materials should be included and
6 the restrictions which presently exclude
7 "automobiles or ordinary motor trucks" and
8 requires such equipment to be "specially
9 designed" should be deleted as pointed out
10 hereunder.
- 11 12. In most cities, as is the case in our
12 municipality, road construction and fire
13 fighting is carried out by two distinctly
14 different municipal departments, a fact
15 which leaves us wondering why the exemptions
16 referred to combines the two, and substantiates
17 our reasoning for claiming two separate
18 exemptions.
- 19 13. We feel that the \$500.00 minimum no longer
20 represents a fair or practical figure and,
21 in keeping with the reasoning behind the
22 previous reduction from \$1,000.00 in 1957,
23 should be eliminated.
- 24 14. The 1958 "Municipal exemptions:
25 "fire hose including couplings and nozzles
26 therefor;"
27 -----
28 and, "fire truck chassis for the permanent
29 attachment thereon of fire fighting equip-
30 ment to be used directly in fire fighting".



- acknowledged the need for exemptions on a greater number of items, regardless of value and not just the larger occasional purchases.
15. The majority of the necessary items involved are presently valued at less than this minimum figure and are found to be primarily of an exclusive nature and are those commodities which require continual replacement, many of which have been subjected to somewhat controversial or illogical rulings.
16. For example, even though fire pumper units, fire hose and hose nozzles are exempt, the hose fitting joining the hose to the fire hydrant and the fire hydrant itself have been ruled taxable despite the argument that fire fighting has been acknowledged as a necessity and that, without the hydrant and fitting, would have very little effectiveness in combating fires. Tampers, compactors or snow-jeps have been ruled taxable because they are not used exclusively on roadways but on sidewalks as well. Street sweeper broom bristles and grader blades have been ruled taxable regardless of the fact that street sweepers and graders have been ruled exempt and cannot function without them. A sweeper for our municipal Airport runways has been ruled taxable but sweepers for our municipal roads are exempt.
17. Many more contentious rulings could be stated



- 1 17. in respect to other functions of our
2 municipality described herein, rulings which
3 could be eliminated by removal of existing
4 restrictions.
- 5 18. Walkways (including curbs, gutters, driveway
6 or lane **crossings**, and boulevards) are
7 constructed, cleaned and maintained mainly
8 by identical equipment, in the identical
9 manner which is used on road areas, indicating
10 the inclusion of "walks" to be a practical
11 conclusion, and maintenance equipment falls
12 into this same category.
- 13 19. Equipment, purchased by civic governments,
14 to a large extent, serve dual purposes and
15 only a portion thereof can therefore be
16 certified as to any one "end use" automatically
17 causing the municipality to presently pay
18 sales tax on such equipment.
- 19 20. Equipment should be exempted for a municipality
20 whether it is used for road or walkway making
21 or cleaning, sewage system construction, fire
22 fighting, etc., because in all instances it
23 would be for the "own use of the municipality"
24 and for purposes of essential and indispensable
25 services.
- 26 21. The inclusion of materials in this exemption
27 would, to a large extent, entail commodities
28 which are presently exempted by the "Excise
29 Tax Act" such as sand, gravel, etc.
- 30 22. Equipment used exclusively by civic governments



22. on municipal road projects and in combating fires is not all actually "specifically designed" for such purposes, including automobiles and trucks, and it is felt therefore, if the "end-use" is certified to, by a municipality, such restrictions are not necessary.
23. Statistics indicate that fire fighting, road and walk cleaning and maintenance programs are on the increase, whereas road and walk construction is on the decline, further substantiating the broadening of this exemption to include these increasing services to be a logical manouver.
24. Further to our recommendations for the removal of the aforementioned restrictions, we wish to point out that while fire protection costs have more than tripled in the past decade, and account for a substantial portion of our total municipal expenditures, the effectiveness of this force has resulted in fire losses being held to less than a thirty percent increase although fire calls have increased 111.1% in the same period.
25. Removal of the restrictions referred to would eliminate the need for the present "Municipalities" exemptions being listed separately for "fire hose" and "fire truck chassis", since "chassis" are included in the \$500.00 exemption and normally a sizeable quantity



25. of "fire hose" is obtained at the time
"fire fighting units" are purchased and are
therefore exempted in the all-inclusive
sales price.
26. Further we believe the sixth listed exemption
for "municipalities":
"Goods for use as part of sewage and
drainage systems and, for purposes
of this exemption of such goods, any
agency operating a sewage or drainage
system for or on behalf of a municipal-
ity may be declared a municipality for
such purposes by the Minister;"
be modified to include "sewage construction
and maintenance equipment and materials",
which are equally as important as the
system itself, by deleting the words "use
as part of".
27. An increased exemption of this nature would
thereby include those items presently
taxable by reason of not being "a part of"
the sewage system, but which are completely
consumed in the system, such as sewer
cleaning equipment, etc.
28. Although sewage systems are presently
exempted, there remains many items exclusively
used in their construction which should also
be entitled to exemptions.
29. Sewage systems were acknowledged as being
essential by the exemption awarded to



29. "municipalities" in 1958 for purposes
of eliminating health problems for the
direct benefit of the general public
30. We believe the seventh, eighth and ninth
"Municipalities" exemptions listed in
Schedule III of the "Excise Tax Act".

"laminated timber for bridges:"

- - - - -

"precast concrete shapes for bridges
in public highway systems;"

- - - - -

and, "structural steel and aluminum for
bridges;"

- - - - -

should also be deleted and be replaced
with one exemption, namely:

"goods for bridges in public highway
systems."

31. This amendment would include to a large
extent commodities already enjoying
exemptions.
32. In addition to these increased or modified
exemptions, we believe the following
additional exemptions should also be inserted
into the present list of "municipalities"
exemptions as outlined in Schedule III of
the "Excise Tax Act".
33. We are particularly concerned about our
municipal transit system, consisting of
some 291 vehicles which are presently



- 1 33. subjected to the federal sales tax, as are
2 the repair parts and maintenance equipment
3 therefor, on which we feel sales tax should
4 be eliminated.
- 5 34. This transportation is essential to our
6 school system and other student bodies,
7 institutions, the general public who do
8 not possess their own transportation medium,
9 and for Civil Defence evacuation purposes,
10 if required, as well as for our senior
11 citizens, including those pensioners who
12 receive courtesy passes, and operates on
13 our municipal roadways.
- 14 35. We feel that exemptions on behalf of such a
15 transit system are essential and should be
16 designed to include rapid transit systems
17 of the future.
- 18 36. Our 545 man police force, and its indispensable
19 operations such as crime detection, ident-
20 ification, photography, criminal invest-
21 igation, patrolling and traffic controlling,
22 all for purposes of protection to the general
23 public are, in our estimation, deserving
24 of exemptions from the federal sales tax.
- 25 37. Police forces across Canada also contribute
26 to the employment situation. The Dominion
27 Bureau of Statistics Bulletin No. 85-204
28 (1961), indicates that some 840 Police
29 departments in Canada employ almost 30,000
30 men and women.



38. The various motor vehicles, and all other required equipment necessary in combating ever increasing crime, locating missing persons, controlling traffic, etc., should be exempted for this force. Our municipal police enforce applicable senior government statutes and municipal by-laws as well as performing their duties in protecting the general public under civil defence arrangements and attending all fire and ambulance calls.

39. Although not all Canadian municipalities operate their own water treatment plants or electrical energy plants, we feel that concessions should be made regarding the federal sales tax for those that do.

40. Inasmuch as exemptions enjoyed prior to the June, 1963, Federal Budget, by electrical energy and water plants operated by municipalities, were in fact "manufacturing" or "production" exemptions, we believe that they should actually be "municipal" exemptions and should contain an extended provision allowing the inclusion of distribution equipment, and we therefore suggest an additional "municipal" exemption for:

"articles and materials used directly in the production and distribution of electricity and/or purified water for domestic consumption. "



- 1 41. These plants were acknowledged as essential
2 in the past by the "Excise Tax Act", such
3 acknowledgment being withdrawn by the 1963
4 Federal Budget, but we conclude that these
5 referred to plants have done much to bolster
6 the economy of our municipality and
7 thereby contribute to the national economy
8 as well as being a benefit to our citizens.
- 9 42. The 1963 budget regulations appear to be
10 designed to cover private industry rather
11 than the already debt-laden municipalities
12 and had the previous exemptions for such
13 plants, producing the worthwhile and
14 necessary products of electrical energy
15 and purified water for the safe domestic
16 consumption of the populous, been listed
17 as "municipalities" exemptions, as we have
18 always held, the result of the new "product-
19 ion or manufacturing equipment" regulations,
20 would not have been such a heavy blow to
21 the Canadian municipalities who used their
22 foresight and initiative in establishing
23 these plants for the benefit of their
24 citizens. Because of this we believe
25 equipment necessary for these plants should
26 be exempted for "municipalities".
- 27 43. Further, we consider the distribution of these
28 commodities to be, in fact, further process-
29 ing inasmuch as control and regulation of
30 electric power, pressure control of purified



43. water and some additional settling, takes place in the distribution system processes, which are definitely essential for purposes of safe domestic consumption, and are equally important as the production processes.
44. Our waterworks distribution system consists of various commodities which should qualify for exemptions such as; tanks or reservoirs, vehicles, compressors, meters, fire hydrants, pipes, valves, etc., and are important factors for civil defence, fire fighting, daily living and public health.
45. This system shows a 77.6% increase in the past decade for the number of water services (36,255 - 64,437), a 109.3% increase in gallons of water consumed (4,483,000,000 - 9,381,000,000), and a 74.9% increase in miles of water lines (442,715 - 765,569).
46. Our 23 substation electrical distribution system shows increases, from 1951 to 1961, of 70.3% for customers (46,968 - 80,060) and 294.2% for kilowatt-hours consumed (162,037,866 - 638,623,427), and consists of over 800 miles of distribution overhead and underground lines and is an important part, in the Emergency Measures Organization and the War Supplies Agency, in civil defence activities.
47. The main taxable items for which tax relief is sought are; street lighting equipment,



47 cable, wire, pole line hardware, transformers,
meters, and vehicles.

48. As stated, we contend that civic "waterworks"
and "electrical plants" should be included
in the "municipalities" exemptions, of
Schedule III of the "Excise Tax Act", and
if our requests in this regard are granted,
we suggest the deletion of our present
exemption for:

"Diesel fuel oil for use in generating
electricity;"

since an "electrical plant" exemption should
automatically include all fuels therefor.

49. Further, the wording of the "Diesel Fuel"
exemption appears to have been inadequate
as, at the time the exemption was awarded,
the fact overlooked was that only 7% of
Canada's electrical energy is produced by
thermal power, the remaining 93% being hydro.
Municipalities account for very little of this,
being included in the 66% of public-owned
thermal generation mediums of which 9.8%
of the expenditures for fuel used therein,
is in fact, diesel fuel, the main fuels being
non-taxable coal, partially exempted natural
gas (taxable when used in Internal Combustion
Engines) and other petroleum fuels (as per
Dominion Bureau of Statistics Bulletin
#57-202).



1 50. This leads us to believe that this exemption
2 should have been for "fuels" in general
3 without restriction particularly since
4 our municipality is one of the few civic
5 governments who operate their own electrical
6 energy plant and, since we use natural gas
7 only, we do not benefit from the "diesel
8 fuel" exemption.

9 51. The taxable portion of fuels used in the
10 Canadian production of electrical energy,
11 as used in internal combustion engines,
12 represents only from 1.3% (or 4.6% - if
13 gas turbines are included) of Canada's
14 total generating capacity. Any exemption
15 for same, when used by municipalities being
16 included in the .5% (1.6%) of these which
17 are publicly-owned internal combustion
18 engines, would affect federal tax revenue
19 very little.

20 52. We conclude therefore that municipalities
21 benefit very little by way of the "diesel
22 fuel" exemption, as presently worded, and
23 since the awarding of this exemption in 1958
24 acknowledged that the "generating electricity"
25 processes conducted by municipalities were
26 deserving of tax relaxation, it should have
27 been worded to cover "fuels" of all kinds,
28 whenever consumed for generating electricity.

29 53. Various repair parts, vehicles and equipment
30 required in our sanitation system (incinerator



53. and scavenging), being an essential service, also warrants exemptions.
54. The annual expenditure for our incinerator alone has increased a substantial 518.1% from 1951 to 1961, while our scavenging section costs have increased 56.1% in the same period.
55. The collection units making up the scavenging section travel approximately 600,000 miles per year in performing their services in our city. This entails the hauling of close to 90,000 tons of garbage, approximately 75% of which is burned at our incinerator, the balance being disposed of in dump areas. Such services, in keeping with Provincial Government regulations, bring about safe and proper disposal of accumulated garbage and thereby protects our citizens from possible health problems.
56. Our fifteen clinic health department, also showing a substantial (420.2%) increase of expenditures from 1951 (\$89,817.34) to 1961 (\$467,177.00), warrants additional exemptions.
57. Over 80% of our health departments 109 staff members are professional personnel providing free non-profit services to almost 300,000 citizens per year, an increase of 414.5% since 1951, primarily for purposes of immunization, well baby and dental purposes and operate within the confines of Provincial



57. and Federal Government legislation while protecting the community against disease, promoting good health standards and controlling the hygiene of our environment, including public food handling businesses, as well as taking an important part in civil defence arrangements.
58. Our communications system, consisting of fire alarm, traffic light and street sign divisions, is also indispensable to the welfare of our citizens and is, in our opinion, deserving of tax concessions by way of exemptions.
59. This system, the nucleus for all emergency calls such as police, fire &c., which maintains all mobile radio communications, requires exemptions for fire alarm boxes, electronic equipment, emergency phones, signs, traffic lights, etc., which are warranted.
60. Expenditures for this system have increased 508.3% in the past decade while local surveys have indicated that municipal traffic has almost doubled in volume in the same period substantiating the necessity of safe and proper control by way of signs, signals, lights, etc., particularly for pedestrian traffic and especially on behalf of children at school crosswalks, etc.
61. Our Civil defence department is not only



61. essential for the general public but, for all other municipal departments as well and is therefore indispensable for the public's well being at all times.
62. At least 75% of the expenditures for literature, technical releases, signs, etc., for this department is received from senior government grants. The federal government taxes itself on this portion inasmuch as the sales tax is presently applicable to all these purchases.
63. Our municipal civil defence operational centre, financed by the federal government, was in fact taxed on the non-exempt materials. This lead us to believe that such an inequity should be eliminated by granting sales tax exemptions on behalf of municipal civil defence departments.
64. Articles, materials, equipment and goods purchased on behalf of the foregoing "essential services" should be exempt without restriction except that they be for the "own use" of the municipality.
65. We contend further that the equipment and materials necessary in non-taxable manufacturing as conducted by "municipalities" such as electrical energy, purified waters, crushed gravel, nursery stock, etc., should be provided with an exemption from the 11% federal sales tax, and thereby enable civic



65. governments to escape the ill-effects of the 1963 budget regulations which unfairly included "municipal" processes with those of private businesses and subsequently causes increased municipal debts or limits present operations.
66. Indispensable and essential manufacturing as mentioned in the proceeding paragraph, should not, in our judgment, be subjected to the federal sales tax, when they are publicly-owned and are maintained with public funds and are not for purposes of business returns such as our private industries are.
67. We believe that exemptions in this regard would not necessarily harm federal tax revenue to any large extent inasmuch as not all Canadian cities conduct such processes and, for those who do, their plants are presently established and would involve only such commodities as required for expansion or maintenance purposes. However the identical proposed exemptions could contribute to a very large degree in not only providing our citizens with essential services but in holding the line on municipal debt.
68. In addition, we believe taxable manufacturing processes, conducted by a "municipality" for its own use and not for resale, should also be exempted and the regulations pertaining



68. thereto should be amended accordingly.
69. Such manufacturing necessary, for our essential services, represents approximately 2% of our maintenance operations and shows very little increase from year to year.
70. Municipalities are subjected to the same licence regulations as are private businesses which is usually involved with large scale production of similar products or processes for purposes of a business return whereas municipalities consists of individual and separate boards or departments operating distinctly different services, on a small scale, for their own use and not for resale.
71. The "Application for Licence" Form (L-15) is not designed to include "municipalities" and, as long as our various department must operate under one licence, they cannot take advantage of the "small manufacturers" exemptions.
72. It is noted that various subsections to section 30 of the "Excise Tax Act" indicate that the act of "sale" determines the taxability, whereas section 2(1)(aa)(ii) appears to contradict this interpretation by stating that the method of disposing of goods has no bearing, whereas none of this cities "manufactures" are subjected to any sales and are exclusively for our own use. Coupled with this, the fact that the terms "manufacturer



72. or producer" and "manufactured or produced", are not defined in the Act, and in fact words of numerous controversial definitions, we believe our operations should not be subjected to the manufacturing tax.
73. These increased, additional or amended exemptions are becoming extremely necessary so long as our municipal debt continues to experience its present substantial annual increases.
74. Our municipal debt has increased 257.1% from 1951 (\$40,570,576.00) to 1961 (\$144,857,728.00), our population increasing 76.1% in the same period.
75. This debt was brought about by the increased expenditures of our essential services of which the major items are education (30.60%); protection, including fire, police, traffic, etc., (18.36%); public welfare and health (8.85%); sanitation, including incinerator, scavenging, sewers and street cleaning (4.92%); and public works, including construction and maintenance of roads, snow removal and parking (3.35%): (as of 1961), of which government grants covered only 10.85%.
76. The distribution of the tax burden on our citizens appears to be unfair inasmuch as the purchases of commodities, required in the operation of our municipal functions, are purchased and paid for out of public



- 1 76. funds. These funds, having previously
2 been subjected to income tax, are again
3 used in part to cover other tax charges
4 on both the provincial and federal
5 government levels.
- 6 77. Relaxation of federal sales tax regulations
7 on behalf of Municipalities should be
8 aimed to place municipalities in the
9 same position, regarding federal taxation,
10 as are provincial governments since public
11 funds are expended by both.
- 12 78. Our municipality and indeed municipalities
13 in general, contribute greatly to the
14 employment picture. Any exemptions extended
15 to the aforementioned operations would
16 assist in a greater expansion of same and
17 simultaneously or eventually provide
18 added employment. As continually rising
19 operating costs and ever increasing municipal
20 debt and taxation delays expansion or
21 eliminates work programs, the employment
22 situation on the municipal level will
23 necessarily suffer.
- 24 79. Our municipal-owned utilities contribute to the
25 employment picture as well as exercising
26 a great deal of purchasing power and helps
27 to hold down increasing property taxes
28 or utility rates for our citizens.
- 29 80. Increased or additional municipal sales
30 tax exemptions would provide civic governments



- 1 80. with greater economic stability, subsequently
2 reflecting on economic conditions through-
3 out Canada.
- 4 81. Approximately seventy (70) percent of the
5 Canadian population is concentrated in
6 urban municipal areas. It follows then
7 that the majority of federal tax revenues
8 must be derived from these areas, which
9 includes "municipalities", (normally being
10 employment and industrial centers). Any
11 concession made to civic governments, in
12 regard to the abatement of taxation, is
13 warranted on behalf of the citizens concerned.
- 14 82. The policy whereby federal monies expended
15 on the municipal level are subject to the
16 federal sales tax could be eliminated by
17 the granting of municipal exemptions. We
18 refer to cases such as our civil defence
19 grants which are partially expended to
20 cover sales tax charges on the commodities
21 purchased therefor.
- 22 83. The cost increases in operating these justified
23 and necessary municipal functions have probably
24 not been taken into account when awarding
25 municipal exemptions. The aforementioned
26 services have been subjected to outstanding
27 increases in operating costs, ranging from
28 the lowest, a 24.2% increase for our walk
29 construction, to the highest, a 518.1%
30 increase for our incinerator operations,



1 83. during the past decade. These essential
2 services represent 76.19% of our total
3 municipal expenditures.

4 84. Such worthy and essential services should
5 be given every possible financial assistance,
6 of which sales tax exemptions would be a
7 practical method of financial assistance.

8 BB

9 85. The lengthy periods involved and the complex
10 procedures necessary in bringing about
11 necessary amendments to the "Excise Tax
12 Act" should be investigated and improved.

13 86. We recommend that a committee should be
14 established immediately, which would
15 include key members of the staff from the
16 Departments of Finance and National Revenue,
17 to study the restrictions, anomalies or
18 inequities in the "Excise Tax Act" and
19 bring forth recommendations on proposed
20 changes to this Act.

21 87. Further, we believe that the findings of such
22 a committee should be submitted to the
23 Ministers involved for approval and sub-
24 sequently action without parliamentary
25 approval.

26 88. We feel that senior taxation officers throughout
27 Canada possess the necessary knowledge to
28 supply a great many rulings or interpretations
29 of the Act; on the local level if authority
30 to do so existed, which is not the present



- 1 88. procedure. It seems obvious that requests
2 for rulings effecting specific cases could
3 be made simpler and more thorough on the
4 local level resulting in rulings being
5 more practical and immediate.
- 6 89. We feel that the committee together with the
7 extended authority recommended for senior
8 taxation officers, could do much to clarify
9 and simplify the administration of the
10 "Excise Tax Act" and result in more efficient
11 and effective administration thereof.
- 12 90. Many of the regulations, provisions and
13 amendments of this Act appear to be out-
14 dated, resulting in detrimental effects
15 on those concerned.
- 16 91. In the case of our municipality, sewage and
17 drainage construction had mostly been
18 completed by 1958 when the exemption for
19 these systems came about and provided very
20 little relief. The diesel fuel exemption
21 now in effect, is also of no value to us,
22 since our municipality uses no diesel fuel
23 in their electrical energy generating plant.
24 This situation is applicable across the
25 Dominion.
- 26 92. The personnel performing duties in the
27 various offices of the Departments of
28 Finance and National Revenue, directly
29 concerned with the administration of this
30 said Act, must certainly review many items



1 92. which are worthy of consideration. However,
2 they are restrained from taking favourable
3 action due to the restrictions or lack
4 of provisions of the "Act" they refer to.
5 We feel such cases should be pursued at
6 this level and could be handled with
7 greater efficiency and dispatch by these
8 people of authoritative knowledge through
9 the aforementioned committee or extended
10 authority.

11 93. These authorities should create greater
12 interest in the many administrative problems
13 involved in the Act. Requests for rulings
14 at the present time quite often result in
15 interpretations of little value. Greater
16 interest and willingness for many to refer
17 their problems to the proper authorities,
18 with the knowledge that their efforts would
19 be worthwhile, could result from our fore-
20 going suggestion.

21 94. The procedures recommended could also result
22 in eliminating or simplifying tariff board
23 appeals on tax cases.

24 95. In conclusion we must reiterate our feelings
25 motivating the foregoing; "Municipalities"
26 should be given more wide spread sales tax
27 exemptions and we refer you to the various
28 statistics and relevant information contained
29 herein. We feel that the information sub-
30 mitted provides substantiation of our
presentation.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Submission

to the

Royal Commission on Taxation

by the

Farmers' union of Alberta

August 19, 1963



Submission
to the
Royal Commission on Taxation
by the
Farmers' Union of Alberta
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- 1) This submission is presented for your consideration on behalf of the 26,000 Alberta farmers who are members of the Farmers' Union of Alberta.
- 2) We are concerned over the very great pressure which is being exerted by business interest on Governments, to lower taxes on the business community. The reason given is that the present rate of taxation is so high that it seriously hampers modernization and expansion of business facilities. We question this.
- 3) The costs of operating the Government of Canada are met, generally, from taxes levied upon the Canadian people. This money is not paid by Canadian business. Taxes are a legitimate cost of doing business, and are, quite properly, added to the cost of the goods and services provided by business to their customers. Taxes are therefore collected by business, and turned over to Government, but the consumer actually pays the tax. There is no other source from



3) contd.

which it can come. The assumption that high taxes are imposing a hardship on business seems therefore of doubtful validity.

4) The need for steadily increasing taxes, aside from the general price increase, is a result of an increased population and a higher standard of living. The steady increase in the number of automobiles for example leads to demands for more and better roads. Our educational authorities are finding it necessary to build more and better schools. Welfare costs, such as family allowances, Government sponsored medical care, old age pensions, etc. which are becoming an important and accepted part of our society, require the gathering, through taxation, of vast sums of money, all of which must come from the individual consumer of goods and services.

5) The necessity of these services is recognized in our modern society. However, they offer little means of making a profit, and therefore will, in all probability have to be carried by the state, and paid for out of taxes.

6) It follows then that there are two important points to keep in mind:

1. that the taxation load must be spread as fairly as possible among all Canadian people, and
2. That the available financial resources must be widely used.



7) With regard to (1) the farmer is in a
unique and unenviable position for three reasons.

8) In the first place, he, unlike other
businessmen, cannot pass his increased tax bill,
or any other increased cost, on to his customers,
because he generally has little voice in setting
the price of his produce. A slight surplus over
market demands will cause a serious price drop
in the whole industry. Yet he must pay his taxes
in spite of this unexpected, and largely uncon-
trollable, drop in gross returns. Secondly,
farm income is far from stable. The returns
from grain crops may, and do, vary greatly from
year to year, due to uncontrollable variations
in yield, quality and price, even to the extent
of a total loss occasionally. Few, if any other
businesses face such extreme and unpredictable
fluctuations. (See Table I)

9) This table shows a high net income (as %
of gross) of 57% in 1948, and a low of 34% in 1961-
over 240% variation.

10) Thirdly, the farmer since the war, has
faced a steadily decreasing net income, a situation
caused largely by his dependence on the world
markets. (See Table I)

11) The table shows a steadily declining
return, in actual dollars and in percentage of
net to gross since 1951. (It should also be
noted that in 1960 only 5.5% of Albertans who
paid income tax were farmers, although at that



11) contd. ,..

time 21% of Albertans resided on farms.)

12) This decrease, coupled with the steady rise in taxes has resulted in the tax load bearing particularly heavily on the farmer. (See Table II)

13) This table shows that taxes on farm land and buildings, which took roughly 5% of the farmers net income in the late 1940's and early '50's, now takes almost twice this amount.

14) Our second point, namely that our available financial resources must be wisely used may be explained in this way.

15) Throughout history, it has been customary for old people who were unable to continue to support themselves to be looked after by their children. It has also been the custom for relatives to help a woman who had lost her husband, and who was left with a dependent family. However, during the last century, these practices have, to some degree, changed. The increased standard of living, and the development of commercial life insurance has enabled our people to plan, during their lifetime, for financial security in their old age, and also to provide some security against disaster. Thus a generation ago, it became the custom for a man to take out life insurance, sometimes to the extent of creating a considerable financial burden, during his working life. He thus provided his family with protection in the event of his early death and if he lived beyond



1 15) Contd...

2 retirement, he was not dependent upon his family.
3 This was considered to be a desirable and prudent
4 policy.

5 16) Today we have to some extent moved on from
6 this. We now find ourselves in the position where
7 individual disaster and old age security are
8 becoming accepted as the responsibility of all
9 society, and are administered by the state. This,
10 of course means that our taxes have increased
11 correspondingly. It also means that it is no
12 longer necessary for the individual to make as /
13 extensive plans for the protection of his family,
14 and for his own retirement as was considered
15 prudent a generation ago. The money formerly
16 spent on insurance premiums might perhaps be
17 diverted to payment of taxes, and the protection
18 received by the individual would still be in effect
19 through the various state welfare programs.

20 17) Tremendous sums of money are paid today
21 by the Canadian people into life insurance, pension
22 plans, and other protective arrangements. These
23 monies must be invested by the insurance companies.
24 Thus we see, in every Canadian city, dozens of
25 huge office buildings being erected very largely
26 with funds provided by the companies mentioned.
27 Few, if any of these buildings, are in full use.
28 We know of one building, well located, which was
29 built in 1957, and has substantial space which
30 has never been occupied, and this situation is



17) Contd...

quite usual. Yet other similar buildings are in the process of construction. The latest fad seems to be high rise apartments, and we strongly suspect that these too will very soon provide surplus space.

18) The Bank of Canada in their May 1963 Statistical Summary shows that 12 Life Insurance Companies in Canada invested in 1963, \$779 million. Of this \$617 million, or practically 80% was invested in mortgage loans.

19) This indicates that there is available in Canada, capital which could be used more wisely than is presently the case. Some of the capital now being used to build these surplus structures could very well be channelled into business expansion, to provide any shortage of capital in this field. We suggest that the problem is not one of harmful taxation but rather one of misdirected investment.

20) This has a bearing upon cooperatives, and the allegation that they do not pay their fair share of taxes. A cooperative is set up, by a group of people, to provide themselves with necessary service at cost. In general, coops charge the "going rate or price" for their goods and services, because they have no desire to become involved in a price war with their competitors. This usually results in a saving to the Coop patrons which becomes apparent at the end of the fiscal year.



1 20) contd...

2 This is not a dividend. A dividend is a profit
3 accruing as the result of an investment.

4 21) In the case of a consumer coop the money
5 returned to a member, as a result of his using
6 his own facilities, is a saving on purchases so
7 far as he is concerned, or it is a return of an
8 overcharge, so far as the coop is concerned. It
9 never, at any time, belongs to the Coop, as an
10 organization. It is always the member-customers
11 money. He paid income tax on it when he received
12 it in the first place, before he used it to make
13 a purchase. We submit that no case can be made
14 in support of a further tax on it.

15 22) We frequently see merchandise advertised at
16 a discount, or we find a bonus being paid for
17 advertising reasons, or we are advised of volume
18 discounts on certain goods. There is never any
19 suggestion that the customer pay income tax on the
20 money he saves in these instances. Yet they
21 represent a saving on purchase price - as do
22 consumer coop savings.

23 23) In the case of a marketing coop, the
24 situation is somewhat different. The member
25 markets his produce through his coop, and receives
26 partial payment. The remainder of the payment
27 is held back, and used to meet the necessary
28 marketing costs. Usually the hold-back is not all
29 used for this purpose and the unused portion is
30 returned to the member. Since this is a payment



23) Contd.

for produce, it is subject to income tax, and must be declared on the members income tax returns.

Here again, this money was never the property of the coop. It always belonged to the member, and he pays income tax upon it. These monies cannot fairly be taxed, in the hands of the coop. The coop is nothing more than a machine, designed by the members to serve themselves.

24) A common criticism is that some of this saving, or overcharge, or holdback is kept in the coop, and used for the expansion or improvement of its services. This is quite true. However, as we have pointed out, this money belongs to the member, and he is therefore at liberty to spend it to improve his home, his farm, his wardrobe, or his coop - all of which belong to him.

25) The investment in a coop, by a member, is not an investment in surplus buildings, or any other unnecessary commodity or service. It is an investment in a service which that individual, in common with others, feels is necessary for the proper and efficient conduct of his business or to provide for his consumer needs. Because of the small sums invested by each individual and because of the large membership, coops represent a wide spread investment for the sole purpose of providing to the interested users, a necessary service at cost, and this whole operation is under complete democratic control.



1 26) Coops therefore provide the opportunity
2 for spreading the investment base among the
3 ordinary citizen, and so prevent large
4 accumulations of capital, which, as we have
5 shown may result in misdirection of investment.
6 Investment in a coop on the other hand, is made
7 only when it is necessary, for the services of
8 its members.

9 27) We submit therefore that there is neither
10 legal or moral justification for any increase
11 of taxation upon cooperatives.

12 28) We also have our reservations, as stated,
13 as to the need for relieving business from the
14 "crushing burden of taxation". The Financial
15 Post, May 11, 1963 edition reports: "1962 profits
16 were at a new high, surpassing the previous peak
17 set in 1956-----After tax, profits were 14%
18 higher than in 1961". This report deals with the
19 1962 operations of 255 of the largest companies
20 in Canada. In view of this report proper direct-
21 ion of the available financial resources may very
22 well be a better answer than taxation relief.

23 29) In our opinion, the problem faced by our
24 taxing authorities is simply that of distributing
25 the tax load among our Canadian citizens so that
26 no individual or group is carrying an unfair
27 portion of the load, having in mind ability to
28 pay. Since our farm people now carry a
29 disproportionately heavy tax load, as shown by
30 Table II, we cannot agree that increasing the



1 29)tax on cooperatives to which the great majority
2 of our farmers belong, is in any way justified.

3 30) We are aware of the submission which will
4 be made before this Commission by the Coop Union
5 of Canada, on behalf of the Cooperative Movement
6 in this country, and also of the submission being
7 made by the Alberta Wheat Pool. We wish to
8 declare our organization as being in full agree-
9 ment with these two submissions.

10 Respectfully submitted,

11 Farmers' Union of Alberta.
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T A B L E I

FARM INCOME (CANADA)
(in millions of dollars)

| | | GROSS | NET | NET AS |
|----|------|-------------|-------------|----------------------|
| | YEAR | FARM INCOME | FARM INCOME | PER CENT OF GROSS |
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
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| 8 | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | 1946 | 1,993 | 1,078 | 54 |
| 12 | 1947 | 2,183 | 1,130 | 52 |
| 13 | 1948 | 2,719 | 1,554 | 57 |
| 14 | 1949 | 2,631 | 1,416 | 54 |
| 15 | 1950 | 2,551 | 1,220 | 48 |
| 16 | 1951 | 3,419 | 1,937 | 56 |
| 17 | 1952 | 3,500 | 1,919 | 55 |
| 18 | 1953 | 3,207 | 1,644 | 51 |
| 19 | 1954 | 2,604 | 1,025 | 39 |
| 20 | 1955 | 2,924 | 1,290 | 44 |
| 21 | 1956 | 3,218 | 1,457 | 45 |
| 22 | 1957 | 2,783 | 1,054 | 38 |
| 23 | 1958 | 3,131 | 1,338 | 43 |
| 24 | 1959 | 3,084 | 1,199 | 39 |
| 25 | 1960 | 3,227 | 1,320 | 41 |
| 26 | 1961 | 3,040 | 1,034 | 34 |



T A B L E II

TAXES ON FARM LAND AND BUILDINGS EXPRESSED AS

| | | Percentage of Gross Income | | Percentage of Net income | |
|----|-------------|-------------------------------|----------------|-----------------------------|----------------|
| | <u>YEAR</u> | <u>CANADA</u> | <u>ALBERTA</u> | <u>CANADA</u> | <u>ALBERTA</u> |
| 1 | 1946 | 2.8 | 2.9 | 5.1 | 4.9 |
| 2 | 1947 | 2.8 | 2.8 | 5.4 | 4.9 |
| 3 | 1948 | 2.6 | 2.6 | 4.5 | 4.2 |
| 4 | 1949 | 2.9 | 3.6 | 5.4 | 5.8 |
| 5 | 1950 | 3.2 | 2.4 | 6.7 | 7.3 |
| 6 | 1951 | 2.7 | 2.6 | 4.8 | 3.9 |
| 7 | 1952 | 2.9 | 3.3 | 5.3 | 4.4 |
| 8 | 1953 | 3.4 | 4.3 | 6.7 | 5.9 |
| 9 | 1954 | 4.6 | 4.0 | 11.6 | 9.5 |
| 10 | 1955 | 4.2 | 3.6 | 9.5 | 8.6 |
| 11 | 1956 | 4.1 | 4.4 | 9.0 | 7.0 |
| 12 | 1957 | 4.9 | 3.7 | 12.9 | 10.4 |
| 13 | 1958 | 4.5 | 4.0 | 10.6 | 7.4 |
| 14 | 1959 | 4.8 | 4.0 | 12.4 | 8.4 |
| 15 | 1960 | 4.9 | 4.3 | 12.1 | 9.5 |
| 16 | 1961 | 5.3 | 4.2 | 15.7 | 9.7 |

COPY

11608 110A Ave.
Edmonton, Alberta
August 16, 1963

Royal Commission on Taxation,
c/o Mr. J. Sim,
Maddonald Hotel,
Edmonton, Alberta.

Gentlemen,

Please find attached copy of original and translation of a short paragraph appearing in the annual report of the German Investment Trust (Deutscher Investment Trust) for the year 1959. From this it would appear that the German Federal Republic with its successful economy is anxious to give an incentive to the man with modest means and income to save part of his earnings, achieving at the same time a withdrawal of a most likely considerable amount from the consumers market and directing it to the capital market.

The amount mentioned in the article might appear puny according to our standards, but if you replace the DM with Can. Dollars, it most likely would be admitted, that considerable amounts could be involved. It would also help to introduce people, who never before saved a penny, to the benefits of accumulating reserves and long range planning, just as it did apparently in Germany. In Canada we have made a start in this direction with the Saving Certificates of the Trust Companies, which are issued for a period of from 1 - 5 years. It will most likely be conceded that the Government Bonds do not live up to expectations in this respect.

Of the technical details and of the resulting income tax regulations I have no knowledge, but would assume that they could be easily obtained, if your commission would consider it worthwhile to pursue the matter further. The purpose of this short brief is to draw your attention to the existence of such a scheme.

Yours very truly,

E.L. Strack

RECHENSCHAFTSBERICHT

ueber das Geschaeftsjahr 1959

DEUTSCHER INVSETMENT - TRUST

Gesellschaft fuer Wertpapieranlagen m.b.H.

Frankfurt a.M., Kaiserstrasse 34

Fol. 5.

Von den gesetzgeberischen Massnahmen des Jahres 1959, die fuer den Kapitalmarkt von Bedeutung sind, ist einmal das im Mai verkuendete Sparpraemien-gesetz zu nennen. Danach wird - wie bei anderen Sparleistungen - auch beim Ersterwerb von Investment-Anteilen eine Praemie aus oeffentlichen Mitteln gewaehrt. Die Praemie betraegt 20 % des gesparten Betrages und wird bis zu einem Jahreshoechstbetrag von DM 120.00 pro Person - der Praemienheechstbetrag steigert sich je nach dem Familienstand bis auf DM 360.00 - gewaehrt. Voraussetzung ist die Festlegung des Sparbetrages auf einen Zeitraum von 5 Jahren.

TRANSLATION

The Law regarding savings grants should be mentioned as one of the government regulations of the year 1959, which are important for the money market. According to this law a grant will be paid out of public funds for the first purchase of investment shares as it will be given for any other first savings. The grant given is 20% of the privately saved amount and the maximum grant will be DM 120.00 per person and will be increased to DM 360.00 according to familty responsibilities of the applicant. That the savings cannot be withdrawn for 5 years is a condition of the grant.

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

EDMONTON

ALBERTA

VOLUME No.:

DATE:

40A

BRIEF

AUG. 20, 1963

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

BOARD OF TRADE BLDG.

11 ADELAIDE ST. W.

TORONTO

364-5865 1-874-1141 364-7383



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

- 1 -

1
2 SUBMISSION to the ROYAL COMMISSION ON TAXATION

3 by

4 CANADIAN UTILITIES, LIMITED
5
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10
11

12 J. C. DALE, PRESIDENT

13 10040 - 104 Street, Edmonton
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23 The Company is engaged in the generation,
24 transmission and distribution of electricity
25 in the Province of Alberta and Yukon Territory.
26
27

28 July 3, 1963.
29
30



1 SECTION I

2 FEDERAL INCOME TAX

3 (1) Summary: Customers of the regulated investor-
4 owned electric utilities are
5 carrying more than their fair
6 share of the tax burden due to
7 the exemption of government-
8 owned electric utilities from
9 the requirement of paying federal
10 income tax.

11 (2) Recommendation:

12 That this discrimination be removed
13 by the uniform application of
14 federal taxation on all electric
15 utilities regardless of ownership.
16 This may be accomplished by:

17 (3) (a) The removal of federal income
18 tax from electric utility companies
19 that are subject to regulation of
20 rates.

21 (4) (b) In lieu of income tax the use
22 of a sales or "end use" tax
23 applicable to all electric utility'
24 customers.

25
26 SECTION II

27 FEDERAL SALES TAX

28 (5) Summary: Certain fuels used in the generation
29 of electrical energy are exempt
30 from federal sales tax while other



(5) fuels are subject to this tax.

(6) Recommendation:

That all fuels used in the production of electrical energy be exempted from the federal sales tax.

SECTION I

FEDERAL INCOME TAX

(7) The effect of Rate Regulation:

Earnings and operations of the investor-owned utility companies are regulated by the provincial Public Utilities Boards and provincial Power Commissions. The effect of the exemption of these companies from federal income tax would be that the consumers served by them would benefit directly by lower electric power rates.

(8) Municipal or provincial owned electric utility systems are not subject to rate regulation by the Public Utilities Board. They are able to set electric power rates which cover not only the cost of the electric utility operation but other expenditures as well. Consequently, a casual comparison of electrical rates



(8) between investor-owned companies and municipal or provincially-owned systems will not reveal the discriminatory income tax burden on the consumers of the investor-owned utility.

(9) Effect of Cost of Income Tax on Electric Power Rates of Investor-Owned Utilities:

Some recognition has been given by the federal income tax authorities under Section 85 of the Income Tax Act to the fact that investor-owned utility companies are forced by the nature of their business and their franchises to raise large amounts of capital to finance the expansion of services to be performed for the public.

(10) In the year 1962 our income taxes amounted to \$1,360,000. This amount as a percentage of sales is 14.5%. We know of no other industry which has such a high tax component in their commodity sales price.

(11) Effect on Federal Revenues:

Moody's Utility Manual 1962 indicates that Canadian electrical companies paid a total of 36.3 million dollars in income tax.



(11)

In recent months, eight of the twenty companies listed have been converted to public ownership. The income taxes for the remaining twelve companies total 12.2 million, of which about 6.8 million is applicable to the Alberta investor-owned companies. If these companies were exempted from federal income tax, it is submitted that the amount of tax loss to the federal government would be insignificant in view of the small remnant of electric utility companies left under investor ownership.

(12)

The Political Effect:

The monetary advantage gained under the present discriminatory income tax laws by provincially or municipally owned systems has been used successfully by a number of socialist-minded politicians for the compulsory transfer of ownership of electric utilities from the investing public to government. If free enterprise is to continue, the tax discrimination must be removed. It is apparent that the investor-owned electrical utility industry, as a source of federal



(12) revenue, is disappearing at a rapid rate. And, one of the principal reasons for its disappearance is the fact that it is a source of federal revenue.

(13) Money to finance "take-overs" of investor-owned utilities is frequently obtained by provincial governments from foreign money markets, notably the United States. This has an adverse effect on our balance of international payments.

(14) Discrimination Removed by
Use of a Sales Tax:

It has been demonstrated that the loss of revenue accruing to the federal government by reason of the exemption of investor-owned electric utility companies from federal income tax would be small. However, since governments must have money to carry out their proper functions, an "end use" tax or sales tax could be levied on sales of electricity to consumers of both investor-owned and government-owned electric utilities. Customers of government-owned electric utilities would pay this tax in the same manner and at the same rate as the customers



(14) served by investor-owned electric utilities. This would result in a much broader tax base from which to realize the revenues currently being derived from income tax on the investor-owned segment of the industry.

(15) Taxes on Dividends:

As the "end use" tax would be in lieu of income tax, it is contemplated that the present status of dividends under Sections 28 and 38 of the Income Tax Act would be preserved.

SECTION II

FEDERAL SALES TAX

(16) Inconsistencies in Taxation of Fuels:

Under the provisions of The Excise Tax Act certain fuels now used in electrical generating plants are exempt from tax while others are taxable. The following fuels are exempt:

- (1) Diesel fuel oil sold to municipalities for their own use in generating electricity.
- (2) Coal used in all thermal plants.
- (3) Water used by Hydroelectric plants.



(17)

On the other hand, natural gas used in gas turbines is subject to sales tax. This is clearly discriminatory against the use of natural gas for purposes of generating electricity. Also, the generation of power in Western Canada is being discriminated against since only in this area is it economically feasible to use natural gas as a fuel in the generation of electricity.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION TO THE ROYAL COMMISSION ON TAXATION
by
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED
and
NORTHWESTERN UTILITIES, LIMITED

B. F. Willson - President
140 - 6th Avenue West,
Calgary, Alberta

June 18, 1963



Canadian Western Natural Gas Company Limited,
serving Calgary and 84 other communities, and North-
western Utilities, Limited, serving Edmonton and 78
other communities, are both engaged in the production,
transmission and distribution of natural gas in the
Province of Alberta.

Combined Statistics 1962

| | |
|---|--------------|
| Customers served | 205,350 |
| Population served | 808,000 |
| Revenue from Gas Sales | \$36,900,355 |
| Income & other taxes | \$ 7,014,717 |
| Income taxes | \$4,512,600 |
| Revenue and other taxes | \$2,502,117 |
| Income and other taxes per one dollar of sales | 19 cents |



SUMMARY AND RECOMMENDATIONS

SECTION I

Summary: Investor-owned utilities pay federal income tax; provincially-owned and municipally-owned utilities do not. Income tax is a cost of utility service. The effect of the Income Tax Act is to discriminate against some utility consumers and favour others.

Recommendation: That federal income tax be removed from utilities and that an "end-use" tax, fair and reasonable for all concerned, be applied uniformly to gas sales of both investor-owned and government-owned utilities.

SECTION II

Summary: The burden of federal income tax is high in relation to utility revenue, compared with other businesses.

Recommendation: That federal income tax be removed entirely from utilities, and an "end-use" tax imposed in its place; and that the tax be reasonable in relationship to sales revenue.

SECTION III

Summary: There is sales tax discrimination against certain uses of natural gas.

Recommendation: That natural gas, like its competitor, electricity, should be sales tax exempt.



SECTION I - THE INEQUITY OF PRESENT FEDERAL TAXATION
ON UTILITY CONSUMERS

1. The Inequitable Distribution of the Burden

The companies draw the Commission's attention to the inequity of the incidence of income tax as it applies to investor-owned utilities on the one hand and municipally-owned or provincially-owned utilities on the other. The former pay income tax, the latter do not. This, coupled with the quasi-monopoly nature of the industry, has left it particularly vulnerable to attempts of "nationalization" at municipal, provincial or even federal levels - attempts which have been so successful in the electrical industry that only a remnant of investor-ownership remains. It is submitted that in a free enterprise economy which is dependent on investor-ownership for further growth, the tax laws should not encourage the elimination of private ownership.

2. The "Cost" Concept of Income Tax

Investor-owned utilities are subject to close regulation by governmental bodies. By and large government-owned utilities are not subject to this form of control.

Under the concepts of utility regulation, the return on investment which the investor-owned utility may earn is normally limited to a stated percentage after payment of operating expenses. A major item of operating expense is income tax. In business generally it is not clear to what extent income tax falls on the consumer of the product and to what extent it is borne by the owner of the business. In regulated utilities, the regulatory authorities are unanimous in directing that income tax shall be treated as an item of cost for the purpose of setting rates.



1 3. The Political Result of the Inequity

2 As income tax is a part of the cost of service in
3 an investor-owned utility, it is inequitable that a con-
4 sumer in Alberta pays income tax in his utility bill,
5 while a consumer in Saskatchewan does not. The social-
6 ists' answer to this anomaly is the takeover of the
7 existing taxpaying utilities, but it is submitted that
8 in a free enterprise economy, a more appropriate solution
9 is to tax all utilities and therefore their consumers on
10 the same basis. The existence of the tax inequity
11 results in a constant threat to the investor-owned
utilities.

12 4. The Inequity Removed at the Provincial Level

13 The inequity arising from differences in taxation
14 treatment as between utilities owned by investors and
15 utilities owned by provincial or municipal governments
16 has been recognized by the Government of the Province of
17 Alberta. In the field of property taxes, the Alberta
18 Legislature has removed the inequity by enacting "The
19 Municipal and Provincial Properties Valuation Act" 1961,
20 Chapter 53. Under that statute provincially-owned and
21 municipally-owned utility properties are now uniformly
22 assessable, and are taxable by, or pay equivalent grants
23 to, the municipality in which the property is situated.
24 Section 6 of the Act expressly provides that the valuation
shall be equitable and uniform with assessments of other
kinds of property throughout the Municipality.

25 The Act does not merely involve a bookkeeping
26 entry between, say, a City's utility department and the
27 same City's general revenues. Under the Provincial
28 School and Hospital programmes, the City has to pay to
29 the Province 36 mills per dollar of assessment on its
30



1 utility department property. Furthermore, the pro-
2 vincially-owned telephone system must raise sufficient
3 monies from its customers to pay not only the standard
4 36 mills per dollar of ~~assessment~~ for school and hospital
5 purposes, but also the mill rate per dollar of assess-
6 ment for general municipal purposes in each municipality
7 where its property is situated.

8 It can be said, therefore, that in the field of
9 property taxation of utilities in Alberta, there is now
10 substantially no discrimination by reason of different
11 class of ownership.

12 5. A Similar Inequity Removed at the Federal Level

13 Section 84 of the Income Tax Act provides that
14 certain Crown Corporations shall be subject to income
15 tax. CCH Canadian Tax Reporter comments on section 84
16 as follows:

17 "The corporations specified are, generally
18 speaking, companies which are carrying on business
19 operations similar to and in competition with
20 private industry. The Minister of Finance stated
21 in his budget address when proposing the intro-
22 duction of this provision that its purpose is
23 to make the financial statements of these corp-
24 orations more comparable with those of private
25 corporations and to make it easier to assess
26 the efficiency of their operations."

27 6. Federal Government Revenues

28 The companies realize the necessity of revenues
29 for the Federal Government, in order that the Government
30 can carry out its legitimate functions. This submission
is not an attempt by our companies to avoid paying a
just share of the costs of government. It is, rather,
a submission for equalization of the tax burden so that
the proponents of socialization can no longer utilize
the "tax saving" as an argument for government ownership.



1 Every tax-paying industry which is expropriated or taken
2 over by provincial or municipal governments obviously
3 represents a narrowing of the tax base at the federal
4 level. There has been a substantial decrease in the
5 federal tax base in the utility group particularly
6 within the last two years. Utility income tax is
7 destroying itself by its very existence.

8 7. Recommendation

9 The solution to the inequity between the investor-
10 owned utility and the government-owned utility is to tax
11 both of them the same way. Under the existing state of
12 federal-provincial relationship it would appear
13 impractical if not impossible to bring the provincially-
14 owned or municipally-owned utility within the scope of
15 the Income Tax Act.

16 It is recommended, therefore, that federal income
17 tax be removed entirely from utilities, and that an
18 "end-use" tax be imposed on all utility revenue, regard-
19 less of the form of ownership of the utility.
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SECTION II - THE BURDEN OF TAXATION OF UTILITY CONSUMERS

8. The Magnitude of Taxes as a Percentage of the Revenue Dollar

Income taxes and property taxes in a rate controlled utility tend to be functions of plant investment; but as items of cost they can be recovered only from revenues derived from sales - just as in other businesses. It is necessary therefore to examine the relationship between plant investment and revenue in regulated utilities compared with other businesses.

From "Taxation Statistics 1962" it is found that in a grouping of utility-type industries, including utilities which directly serve the public, one dollar of investment generates only about 30 cents of annual sales.

In the remainder of industry (excluding the agriculture, service and finance sectors) one dollar of investment generates about \$2.55 of annual sales. Thus any tax which tends to be a function of investment might be expected to result in a taxation level on sales up to eight times greater on the utility group than on the remainder.

The following table indicates that a substantial differential does exist.

| | <u>Taxes as a % of Sales</u> | | |
|-----------------------|------------------------------|--------------------|--------------------|
| | <u>Income Tax</u> | <u>Other Taxes</u> | <u>Total Taxes</u> |
| Utilities (i) | 7.0% | Not Available | |
| Utilities (ii) | 11.6% | 4.4% | 16.0% |
| Utilities (iii) | 12.2% | 6.8% | 19.0% |
| Industry and Commerce | 2.1%(iv) | 1%(v) | 3% est. |

Sources (i) to (v) are listed in the Appendix.



In industry and commerce, income and property taxes take about three cents of the sales dollar; in the two companies submitting this brief, taxes take nineteen cents of the sales dollar.

The following quotation on this subject is from "The Valuation of Property" by Professor Bonbright (Vol. 1 page 517):

"No authority in taxation has supplied a convincing defense of a public-utility tax measured by the value either of the physical properties or of the enterprise as a going concern. Certainly the "ability to pay doctrine" will not suffice. Many tax specialists, indeed, go so far as to reject this doctrine completely as applied to all corporate taxation. But with utility taxation, the case against it is utterly compelling in view of the fact that property taxes are deductible, like operating expenses, in the determination of the "reasonable rate of return" that is used as a basis of rate regulation. With this point in mind, some writers have urged with much force that utility companies should be exempt from every tax except an excess-profits tax designed to recapture the redundant earnings that are not precluded by prevailing methods of rate control."

9. Token Recognition at the Federal Level

Section 85 of the Income Tax Act provides for a slightly lower rate of income tax applicable to utility income.

CCH Canadian Tax Reporter comments on Section 85 as follows:

"The purpose of the introduction of this legislation was to provide relief for the public utility companies to which it applies, in view of the fact that they are forced by the nature of their business and their franchises to raise large amounts of capital to finance the expansion of services to be performed for the public and, because of the public control of rates, are allowed to earn only a limited return on their capital. It was anticipated by the Government that this relief might assist such companies in attracting the capital required."



10. Recommendation

Consistent with our recommendation in Section I we submit that an "end-use" tax bearing a reasonable relationship to sales revenue would be fair and equitable to utility consumers.

11. General Effects of the Recommendations

These recommendations would result in:

- (i) The removal of the existing discrimination between types of ownership.
- (ii) A broadening of a tax base which is, under the present law, fast disappearing. The new tax base would be stable and would be expected to increase.
- (iii) A direct relationship between tax and sales which is particularly desirable in high-investment utilities, where taxes are established as a cost.
- (iv) A fair comparison of efficiency and service between like utilities, regardless of ownership.

12. The Effect of the Recommendations on Federal Revenues

The present section 85 of the Income Tax Act refers to electric, gas and steam utilities. If an "end-use" tax were to be levied on electric and gas utilities in place of income tax, then the following results would be anticipated:

- (1) Present federal revenues - from electric and gas companies

Year 1960 (Taxation statistics 1962) \$35 million

Year 1961 (Moody's Public Utility manual) \$44 million

Year 1961 adjusted by removal of companies situate in British Columbia and Quebec Provinces \$20 million



(ii) Estimate of a revenue tax base for 1960

| | |
|--|-----------------|
| Electric (Canada Year Book 1962 page 551) | \$805 million |
| Gas distribution companies (Taxation statistics 1962) | \$185 million |
| Gas distribution: govern- ment-owned; estimated | \$ 30 million |
| Total tax base estimated at | \$1,020 million |

(iii) Yields of federal tax on the revenue tax base
for 1960

An "end-use" tax rate of 2% (which is approxi-
mately equivalent to the general burden on
industry and commerce - para 8) would have
yielded in 1960 about twenty million dollars
of federal revenue, or about the same as the
yield currently expected from income tax.
At 4% the yield would have been about forty one
million dollars, or about the equivalent of
the yield prior to the recent events in British
Columbia and Quebec.

(iv) Yields of federal tax on an estimated revenue
tax base for 1964

The "electric" component of the recommended
tax base increased 9.3% in 1959 over 1958 and
6.6% in 1960 over 1959 (Canada Year Books).
With the transmission of large amounts of
natural gas from Alberta to Eastern Canada
end-use sales of gas distribution have increased
also. Using an annual increase rate of about
6% the tax base might be expected to rise from
\$1,020 million in 1960 to \$1,290 million in
1964.



Yields of federal revenues on this figure
would be:

| | |
|------|--------------|
| @ 2% | \$26 million |
| @ 3% | \$39 million |
| @ 4% | \$52 million |

(v) Federal revenues - taxation of shareholders

It is contemplated that the "end-use" tax,
being in lieu of income tax, would be imposed
under Part I of the Income Tax Act, thus
preserving the present status of dividends
under Sections 28(1) and 38(1) of the Act.

SECTION III - SALES TAX

13. In certain isolated instances natural gas is
subjected to sales tax under Section 32 of the Excise
Tax Act and provisions of Schedule III to the Act.
Mainly these cases relate to the use of natural gas
as fuel in gas engines, including turbines, for gener-
ation of electricity and to its use in compressor
stations.

In the case of generation of electricity,
fuel oil is also taxable if used in an internal
combustion engine (but with certain exemptions - i.e.
when used by municipalities in generating electricity).
Water power or coal used in electrical generation are
not subject to this tax. It is clear that an inequity
exists here.

Insofar as compressor plants are concerned,
these plants can be operated equally well with electric
powered motors, the electricity being tax free. Natural



1
2
3 gas is therefore at a competitive disadvantage.

4 It is submitted that natural gas, like
5 electricity, should be tax free for all uses under
6 Section 32, and in order to avoid creating an inequity,
7 while correcting one, that the exemption also apply to
8 fuel oil used in the generation of electricity
(replacing the exemption for municipalities only).
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The sources of data in paragraph 8 are:-

- (i) "Taxation Statistics 1962" (for the 1960 tax Year) published by the Department of National Revenue; being 318 companies showing a profit under the headings of railways, pipelines, telephones, electric power and gas distribution.
- (ii) "Moody's Public Utility Manual 1962"; being 25 Canadian telephone, electric or gas utilities showing a profit, and whose entries disclose both income tax and other taxes. The taxation year is usually 1961 (1960 for B.C. Power Corporation Ltd.). Charges for deferred income tax have been eliminated.
- (iii) Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited for the year 1962. (Charge for deferred income tax eliminated).
- (iv) "Taxation Statistics 1962" (for the 1960 tax year); being 40,478 companies showing a profit under the headings of mining, manufacturing, construction, wholesale and retail.
- (v) Estimated. The entries for Canadian companies in "Moody's Industrial Manual 1962" show that "other taxes" are seldom shown separately. This is one indication (in contrast with high-investment utilities) that "other taxes" are less significant in the lower-investment companies. Of the two companies showing other taxes separately, one was 0.3% of sales; the other 1.0% of sales.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION
ON BEHALF OF

ALBERTA AND NORTHWEST CHAMBER OF MINES AND RESOURCES

TO
ROYAL COMMISSION ON TAXATION

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

PREFACE

Main Conclusions and Recommendations

Regarding Mines in Remote Areas

1. Extension of three year exemption period.
2. Such exemption should not include periods when work is suspended.
3. All development work be allowed against profits earned in non-exempt periods.
4. Depletion should be allowed on gross profit.
5. Research costs should be allowed against net revenue after depletion.



1 Introduction

2 1. The Alberta and Northwest Chamber of Mines in
3 presenting this brief to the Royal Commission on Taxation
4 desires at the outset to make it clear that the Chamber
5 does not wish to make representations on the effect of
6 tax provisions on the mining industry, the efficiency
7 of the tax incentives now given, the influence of tax
8 policy on the inflow of capital to the mining industry
9 or the comparison of the tax treatment accorded the
10 mining and other industries in Canada and elsewhere. It
11 is the feeling of the Chamber that these problems can be
12 better dealt with by the Canadian Metal Mining Association
13 and that they should be handled on a national rather
14 than a regional basis.

15 2. The Chamber feels that any representations made
16 on its behalf should deal with the problems that are
17 peculiar to mining companies operating in remote northern
18 areas and should endeavour to show that the incentives
19 given to mining companies under the provisions of the
20 Income Tax Act are not equitably distributed and that
21 mines operating in remote high cost areas should be
22 given greater exemptions and more tax privileges than
23 those operating in low cost areas.

24 The Area

25 3. The area within which are located most of the
26 mines that belong to the Chamber extends from Hudson's
27 Bay to the Alaska boundary and from the northerly
28 boundary of British Columbia and the Prairie Provinces to
29 the Arctic Ocean. This vast area comprises about 40% of
30



1 the land area of Canada. Across part of the area is the
2 Precambrian Shield, that rich mineral area that provides
3 most of the minerals of Ontario and Quebec. In 1962 the
4 mineral production of the Northwest Territories and the
5 Yukon totalled over \$30,000,000. This, however, is only
6 the beginning, as vast sums are being spent in explora-
7 tion and expansion, and all through the area new proper-
8 ties are being developed by many small companies and many
9 giants of the industry like Consolidated, Hudson's Bay,
10 Sherritt-Gordon, Gunnar, Giant Yellowknife, United Keno,
11 Cassiar and many others.

12 4. As has been found elsewhere, mining is the only
13 industry that can flourish in barren, undeveloped terri-
14 tory, and it soon attracts to itself secondary and service
15 industries and an increasing population. The population
16 of this northern area is rapidly increasing and there
17 are now many centres with populations ranging up to 6,500.
18 In the Northwest Territories alone, nearly 100,000 tons of
19 freight moved by the waterways and nearly 8,000 tons by
20 air in 1962.

21 5. The Chamber believes that the development of
22 this vast area will in the next 25 years be a major factor
23 in the Canadian economy. There are of course many
24 problems that must be solved. Industries in choosing
25 locations in which to build plants must not only consider
26 raw materials, but also the proximity to markets and
27 availability of cheap power, transportation and a labour
28 pool.

29 The Problems
30



6. The problems faced by the mining companies operating in the north are many and varied. We would like to enumerate a few of these problems.

(a) Distance from Supply Centres and Markets

The main supply centres for the area are Vancouver, Edmonton and Winnipeg, but most of the mining equipment must come from Eastern Canada or the United States. The mines themselves are located anywhere from 100 to 500 miles within the Territories. This distance added to at least 500 miles from the Territories to the main distribution centres shows the distances everything must be brought to set up the mine.

(b) Transportation

In the case of the Yukon, supplies come from Vancouver by boat, from Edmonton by truck, or must be flown in. In the Northwest Territories most supplies are carried by river and lake transport assisted by trucks and tractor trains or by aeroplane. Freight carried by plane is very costly and water transport is slow and subject to seasonal shutdowns.

(c) Installation Operation Costs

The construction of a mine in Northern areas is much more costly than in settled areas. Since there are no local contractors, construction equipment must first be brought in. By reason of the extreme weather conditions, construction is slowed and buildings must be fully insulated. Since no power lines are available, power plants must be set up. These are mainly diesel plants, and fuel must also be imported. Supplies must be brought



1 in during the navigation season and stockpiled. Long
2 hours are worked during the proper seasons and overtime
3 pay coupled with delays in delivery of supplies cause
4 high construction and operation costs.

5 (d) Additional Costs

6 Mines in remote areas are often forced to make
7 substantial expenditures to bring roads to their prop-
8 erties, since railroads do not penetrate the areas. In
9 most cases schools, housing, recreational facilities,
10 medical services and the amenities of life must also be
11 provided by the mines. The fact that the mines in remote
12 areas are forced to pay for these things should entitle
13 them to special consideration when they are taxed.

14 Tax Incentives Given Mines

15 7. (a) Exemption of New Mines

16 Under Section 83(5) and (6) of the Income Tax
17 Act a mining corporation is not required to include in
18 computing its income tax the income derived from the
19 operations of a mine during the period of 36 months
20 commencing with the day on which the mine came into
21 production in reasonable commercial quantities. This
22 provision is obviously designed to enable a mining
23 company to recover its original development costs and to
24 aid it during its early adjustment period.

25 (b) Development Work

26 The cost of any development work done before the
27 commencement of production can be deducted from otherwise
28 taxable income in the years following the exemption period
29 or from taxable income from other sources during the
30



1 exemption period. After the commencement of production,
2 however, development work of a current nature must be
3 charged to operating costs and so the company gains no
4 tax advantage for having incurred the expenditure if it
5 is made during the three year exemption period. This
6 would appear to penalize small mines that do not have
7 the financial strength to do all development work before
8 commencement of production, and in new remote areas
9 most mines are small.

10 (c) Depletion Allowance

11 A depletion allowance of 33 1/3% of profits
12 reasonably attributable to production of minerals is
13 allowed, but this allowance is after deduction of
14 exploration allowances.

15 (d) Depreciation

16 Mines in addition to receiving normal depreci-
17 ation on their buildings and equipment are entitled in
18 the case of "a mine shaft, main haulage way or similar
19 underground work designed for continuing use or any
20 extensions thereof, sunk or constructed after the mine
21 came into production" to depreciation at 100% and the
22 mining company may deduct such depreciation or any part
23 thereof at any time.

24 (e) Exploration, Prospecting and Development

25 Where expenses for exploration, prospecting and
26 development are incurred in relation to other properties
27 they are deductible in the year of expenditure or in
28 subsequent years to the extent of the company's income in
29 such years.



1 (f) Research

2 Under new amendments to the Act, mining companies
3 are allowed a write-off of 150% for expenditures made in
4 research, such write-off to be deducted from revenue
5 before depletion.

6 8. From the above it would appear that for a
7 company to take full advantage of these tax concessions
8 it should not commence production

9 a) until the mine is fully equipped and
10 organized so that it can immediately reach
11 full capacity,

12 b) until it is reasonably sure that it will be
13 able to continue uninterrupted production
14 for the 3-year period, since extensions
15 will not be granted by reason of suspension
16 of production.

17 c) until all development work required for the
18 first three years has been completed, unless
19 such work falls within Class 12.

20 9. New mines opened up in developed areas are able
21 to organize their operations to take full advantage of
22 these concessions, but mines in remote areas are rarely
23 able to do so. The main reasons are as follows:

24 a) By reason of the fact that all mining
25 equipment and supplies must be brought to
26 the mine from great distances, mainly by
27 barge or aeroplane, it is often necessary
28 that loads of ore be taken out on the return
29 trip to reduce costs, with the result that
30



1 operations are in many cases started in a
2 small way and gradually expanded. The result
3 is that the benefit gained by the three year
4 exemption period is small compared with that
5 gained by well financed companies in
6 developed areas where mines can go on full
7 production almost at once.

- 8 b) By reason of the conditions set out above
9 it is rarely possible for mines in remote
10 areas to do all development work before
11 starting production, with the result that
12 the cost must be charged to operating
13 expense in years where profits are already
14 exempt and not against profits in later
15 years as in the case of development work
16 prior to commencement of production.

17 10. Recommendations

- 18 a) That by reason of the high development costs
19 and the delays incurred in reaching full
20 production, the three year period during
21 which the mine is exempt from taxation be
22 extended to at least five years in the case
23 of mines in remote high cost areas, or in
24 the alternative such mines be exempt until
25 recovery of development costs.
- 26 b) That whatever period of exemption is allowed
27 new mines should not include periods when
28 actual operation is suspended. This would
29 avoid loss of benefits where mines are
30



1 unavavoidably shut down by reason of lack of
2 financing, major breakdown, strikes, loss
3 of ore body or other causes beyond the
4 control of the company.

5 c) That the distinction between development
6 work done before or after the commencement
7 of production be eliminated and all develop-
8 ment expenses be allowed against profits in
9 non-exempt periods.

10 d) That since the depletion of an ore body is
11 related to the gross output of the mine the
12 depletion allowance should be based on gross
13 profit before deduction of exploration costs
14 relating to other properties.

15 e) That in view of the fact that in newly
16 developing areas old methods cannot in many
17 cases be used and the new conditions
18 encountered demand new processes if high
19 costs are to be reduced to make the products
20 competitive, such research costs should be
21 allowed as a deduction from net income after
22 depletion. If research costs are deducted
23 before depletion, the amount of the
24 depletion is of course reduced.

25 In conclusion the Chamber wishes to point out
26 that while the recommendations outlined above do suggest
27 special treatment for mines in remote high cost areas,
28 a precedent has been established for different treatment
29 of businesses in different areas by the enactment of the
30



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1 regulations relating to new businesses established in
2 depressed areas.

3 All of which is respectfully submitted on
4 behalf of the Alberta and Northwest Chamber of Mines
5 and Resources.

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SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

presented by

RETAIL MERCHANTS ASSOCIATION OF CANADA

(ALBERTA) INC.

504 Northern Hardware Bldg.,

Edmonton, Alberta.

EDMONTON, ALBERTA

AUGUST 20th, 1963



SUBMISSION

TO THE

ROYAL COMMISSION ON TAXATION

Presented by

THE RETAIL MERCHANTS ASSOCIATION OF CANADA

(ALBERTA) INC.

INTRODUCTION

1. This submission is presented on behalf of the Retail Merchants Association of Canada (Alberta) Inc. with its provincial head office located at Edmonton and branch offices at Calgary and Lethbridge. Our Association is a voluntary, non-profit Organization affiliated with the Retail Merchants Association of Canada Inc. The aims and objects of the Association are similar to those of the Dominion Association and our affairs are conducted in much the same manner as other Provincial divisions of the National Association. We have been established in the Province of Alberta for 50 years and have served the interests of the Retail Trade in this Province throughout that time. Membership is representative of all Provincial regions and all Retail classifications. The average annual paid-up Membership exceeds the figure of 2,000 voluntary subscriptions. Nevertheless, we speak for some 4,000 Retailers who have subscribed Membership at some time during the course of the last five years, and who support the aims and objects of the Association. These businessmen depend upon



1 the Retail Merchants Association for representations
2 to Civic, Provincial and Federal Governmental
3 bodies.

4 2. We are deeply conscious of the importance of the
5 work of the Royal Commission on Taxation and the
6 impact its findings will have upon all taxpayers in
7 Canada. We are impressed with the manner in which
8 the Commission's public hearings are being conducted
9 and the extent to which Canada's tax structure is
10 being researched and investigated by the Commission-
11 ers and the Commission's research staff. In the
12 area of research, this Association willingly volun-
13 teers its assistance to the Commission in any manner
14 possible. Our network of organization may be par-
15 ticularly useful in the area of communication should
16 it be the desire of the Commission to canvass the
17 individual opinions of businessmen throughout the
18 Province.

19 TERMS OF REFERENCE

20 3. This submission is concerned with the following
21 specific Terms of Reference handed to the
22 Commission:-

- 23 a) The distribution of burdens among taxpayers
24 resulting from existing rates, exemptions,
25 reliefs and allowances provided in the per-
26 sonal and corporation income taxes, estate
27 taxes and sales and excise taxes, taking
28 into account also the jurisdiction and
29 practices of the provinces and municipalities.
30 b) Provisions in existing laws which may have



given rise over the years to anomalies or inequities which may require action to close loopholes which permit the use of devices to avoid fair taxation.

- f) The changes that may be made to achieve greater clarity, simplicity and effectiveness in the tax laws or their administration.

SCOPE OF SUBMISSION

4. This submission is preliminary to the major submission of our Dominion Association which is expected to be presented in Ottawa during the month of October. While the scope of this submission is somewhat limited, it will place before the Commission our views on two subjects:-

- (1) Sales Taxes - Federal and Provincial.
- (11) Tax-Favoured Treatment of Businesses Organized as Co-operatives.

5. We are of the firm opinion that all businesses should pay a fair share of the Income Tax burden proportionate to their profits. Unjustified Income Tax loopholes which may exist, should be closed and Co-operatives should make Income Tax contributions similar to those made by ordinary businesses having similar net profits or net surpluses. The Income Tax contribution in all cases should be calculated before any part of net profits or surpluses are dissipated by any form of distribution.



SALES TAX - FEDERAL AND PROVINCIAL

- 1
2 6. We acknowledge with appreciation the Commission's
3 desire for an expression of opinion from the Retail
4 Merchants Association on the subject of Federal and
5 Provincial Sales Tax. This is a matter into which
6 our National Office is presently conducting intensive
7 study and research. It is our information that it is
8 the intention of the Dominion Association to prepare
9 a supplementary brief to the Commission dealing
10 exclusively with the topic of Federal and Provincial
11 Sales Tax and the various proposals which are being
12 put forward which, if implemented, would have the
13 effect of substantially changing the application of
14 this form of taxation.
- 15 7. Owing to the studies which are presently underway,
16 we will limit this portion of our submission to a
17 general statement of Association policy as it exists
18 at the present time. Our further views will be ex-
19 pressed in the National brief which, among other
20 things, will take into account the representations
21 which are being made to the Commission for major
22 changes in the Sales Tax structure.
- 23 8. As a matter of policy, we are not in favour of
24 Recommendation No. 11 of the Sales Tax Committee
25 which would change the base of the Federal Sales
26 Tax from the Manufacturers level to the level at
27 which Retailers purchase goods. While we agree
28 that changes in Federal Sales Tax Legislation are
29 indicated to clarify the base, remove inequities
30 and modify exemptions, we are not of the opinion



1 that changing the tax base, as suggested, would
2 solve these problems. On the contrary, it is our
3 belief that changing the tax base, in the manner
4 suggested, would serve only to intensify existing
5 problems and add to inequality among taxpayers.

6 9. In the Province of Alberta, we are fortunate in that
7 our Association has had no experience with Provincial
8 Retail Sales Taxes. On this question, it is our
9 view that such a tax should be avoided by the Govern-
10 ment, in its search for revenues, until such time
11 as all other sources of taxation have been exhausted.
12 Retailers dislike the imposition of Provincial Re-
13 tail Sales Taxes owing to the fact that the cost of
14 tax compliance and tax collection falls heavily
15 upon the Retail Merchant. He must compute and
16 collect taxes on each transaction and establish
17 special bookkeeping procedures and machinery to
18 satisfy the requirements of accounting for tax
19 collected and remission to the Government. When
20 there is no alternative left to a Provincial Govern-
21 ment but to impose a Provincial Retail Sales Tax,
22 then it is our opinion that the tax should be levied
23 at the lowest possible percentage rate. The Govern-
24 ment's revenue objectives could be achieved and,
25 perhaps surpassed, with a Sales Tax rate of say 2%.
26 This can be accomplished by eliminating exemptions
27 from the tax as they customarily apply to certain
28 classes of commodities and extending application of
29 the tax to include all services. (The service in-
30 dustry is growing rapidly).



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- 1 10. We are aware of the suggestions which have already
2 been made to the Commission that Retailers should
3 be made accountable to the Government for both
4 Federal and Provincial Sales Taxes. In such an
5 event, it is our impression that the Federal Sales
6 Tax would then be levied at the Retail level, in
7 addition to the Provincial Sales Tax which is cur-
8 rently in vogue in seven Provinces. Our first
9 reaction to this proposal is to reject it flatly
10 until, at least, a better case can be made out to
11 justify such a far-reaching change in the Federal
12 Sales Tax base. If such a recommendation were to
13 be implemented, we are inclined to the belief that,
14 for practical reasons, both the Federal and Provin-
15 cial Sales Taxes would be combined into a single
16 rate and take the form of an "indirect" or "turn-
17 over" tax.
- 18 11. This Association stood in firm opposition to the
19 constitutional amendment agreed upon by nine Pro-
20 vinces in 1950 which would have permitted use of
21 Indirect Retail Sales Taxes by the Provinces, up to
22 a maximum of 3% rate. Our position on Indirect
23 Retail Sales Taxes remains unchanged.
- 24 12. The advantages claimed for an Indirect Sales Tax
25 are highly illusory. On the other hand, this form
26 of taxation has several disadvantages and is un-
27 desirable in terms of usual principles of taxation.
28 We doubt if it could achieve the objectives of a
29 "hidden" tax. However, our principal objection to
30 the Indirect Sales Tax is that the term, in its true



1 sense, means a sales tax imposed, technically,
2 upon the vendor, essentially as a charge for the
3 privilege of selling at retail. The amount of tax
4 liability is measured by the sales of taxable goods
5 during the given period. The legal incidence of
6 the tax, therefore, rests upon the Retailer, whereas
7 under the present direct form of Retail Sales
8 Taxation, as used in seven Provinces, the incidence
9 is on the purchaser, the Retailer being designated
10 as a tax collecting agent for the Province.

11 TAX-FAVOURED TREATMENT OF BUSINESSES
12 ORGANIZED AS CO-OPERATIVES
13

- 14 13. There are a great many ways in which people can go
15 into business. They can, as hundreds of thousands
16 of Canadians do, trade as individuals. On the basis
17 that two or more heads are better than one, they
18 can form a partnership. They can also form corporate
19 organizations with an almost infinite variety of
20 capital structures. The aim of all these forms of
21 trading is the same - the financial gain of the
22 people who put up the capital and supply the skill
23 and energy to direct the business.
- 24 14. The aims of a Co-operative, one of the various forms
25 of corporate enterprises mentioned above, are
26 basically the same as those of any other business.
27 Its members no less than the shareholders of or-
28 dinary corporations wish to earn a profit through
29 providing a service. Co-operatives were first
30 granted special tax privileges when they were an



1 infant and experimental type of organization. At
2 that time, taking the economy as a whole, these
3 privileges were not very important. Today, however,
4 when many Co-operatives are powerful and indeed
5 dominate some important industries, these privileges
6 create situations of acute unfairness and should not
7 be tolerated.

8 15. It is not the purpose of this submission, nor is it
9 the desire of this Association, to extol or decry
10 Co-operatives or any other type of trading. We
11 feel that Co-operatives are no more and no less
12 economically or socially desirable than any other
13 type of enterprise which can trade successfully,
14 provide employment and stimulate other business
15 activity.

16 16. Most of the members of this Association, in this
17 Province, are in business in a very much smaller
18 way than the average Co-operative. On the basis of
19 size alone, there is much less reason for Co-opera-
20 tives being accorded special treatment than for a
21 multitude of other businesses. The volume of busi-
22 ness done by Co-operatives in Canada has reached
23 $1\frac{1}{2}$ billions of dollars annually. In the Province of
24 Alberta, the volume of business handled by marketing
25 and consumer Co-operatives reached the staggering
26 figure of \$205 million last year.⁽¹⁾ Trading or-
27 ganizations of the order of the modern Co-operative

28
29 (1) Canada Department of Agriculture "Co-operation
30 in Canada 1961", Page 6



1 do not require the Government subsidies in the form
2 of Income Tax concessions which are presently granted
3 by our taxation laws.

4 17. In our view, the most glaring example of inequitable
5 taxation lies in the provisions of the Income Tax
6 Act which so extravagantly discriminate against
7 ordinary business in favour of the Co-operative
8 method of business operations. We believe that all
9 businesses should be treated on the same taxation
10 footing and that only if our taxation situation is
11 rendered equitable will we, as a Nation, be able to
12 develop the enormous potential which we undoubtedly
13 have.

14 18. We submit that Co-operatives are well able to stand
15 on their own feet and financially capable of meeting
16 their obligations to society by accepting their full
17 share of the Income Tax burden. In doing so, they
18 can still perform their functions and occupy a
19 profitable role in the business world, in the same
20 manner as tax-paying ordinary businesses.

21 19. It is now clearly established as a result of various
22 objective and impartial economic studies that pre-
23 sent Income Tax Legislation, in economic reality,
24 discriminates in favour of Co-operative enterprise
25 and that the consequence of such discrimination is
26 to provide Co-operatives with access to relatively
27 large sums of tax-free capital to finance the es-
28 tablishment and expansion of their trading organiza-
29 tions. These are the conclusions arrived at by
30 Professor R. Craig McIvor of McMaster University,



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1 in his recent study of Co-operatives, published by
2 the Canadian Tax Foundation last year under the
3 title of "Recent Growth In Canadian Co-operatives".
4 Similar conclusions are to be found in the book
5 entitled "The Tax Exemptions Of Co-operatives",
6 written by Dr. Robert T. Patterson, of the American
7 Institute for Economic Research, Great Barrington,
8 Mass.

9 20. Access to tax-free capital which rapidly pyramids
10 into vast sums of money at compound rates of in-
11 terest stems from the tax-favoured status of patron-
12 age dividends granted to Co-operatives under Section
13 (75) of the Income Tax Act. A Co-operative can al-
14 ways, under our present tax laws, pay far less tax
15 and as a result use a much bigger percentage of its
16 profits for expansion than can a normal business,
17 no matter how small both may be. This the Co-opera-
18 achieves by going through the ritual of "declaring"
19 a substantial portion of its patronage dividend but
20 paying only a fraction of this sum in cash and re-
21 taining the remainder within its treasury as capital
22 - much of it very long-term capital. On the other
23 hand, a corporation must pay full income tax on all
24 net earnings, including any amounts placed in re-
25 serve.

26 21. In their attempts to defend the discriminatory tax
27 measures which are conferred upon them, Co-operative
28 spokesmen will argue that no part of the corporate
29 tax is borne by the shareholders of an investor-
30 owned company. They also suggest that the share-



- 1 holders of corporations have special advantages
2 because they enjoy tax-free gains on shares which
3 appreciate through accumulation of undistributed
4 profits.
- 5 22. The first claim is completely unjustified and err-
6 oneous. A majority of economists seem now to be
7 agreed that some part of the corporate tax is passed
8 on in the price of the product or service, part is
9 passed on to labour and results in lower rewards to
10 employees, but a very substantial part of the tax
11 is borne by the shareholders through returns on
12 capital invested being lower than they would other-
13 wise be. In an industry where Co-operatives are
14 active, the portion borne by the shareholders of
15 investor-owned companies is probably greater than
16 in other industries.
- 17 23. The argument ridiculously presumes that all business
18 will show capital appreciation and this is just not
19 so. The hard facts of life are, of course, that
20 capital losses are as commonplace as capital gains
21 This is borne out by taxation statistics issued by
22 the Income Tax Department for 1960. The Department
23 reported on the taxes, profit and income of 95,817
24 corporations about which it had this information.
25 Of this number, 32,506, or one-third of the corpor-
26 ations, operated at a loss.
- 27 24. The second argument is no more valid than the first.
28 Co-operatives are, to a far greater degree than
29 ordinary corporations, building up equity value
30 from undistributed earnings. Of even greater



1 significance is the fact that a great proportion of
2 the earnings retained by Co-operatives are untaxed
3 while an investor-owned business pays every cent of
4 tax, at the high corporate rates, on every cent of
5 earnings, whether retained or distributed.

6 25. On the evidence of facts and figures already placed
7 before the Commission, there is no doubt who is
8 carrying the heavy end of the taxation load. The
9 corporation and its shareholders are making many
10 times the contributions of the Co-operative group.

11 26. Co-operative partisans will also put forward the
12 claim that because both Co-operatives and investor-
13 owned companies can deduct patronage dividends from
14 their taxable profit, there is no discrimination.

15 27. This argument fails to take account of the fact
16 that the recipients of the patronage dividends of
17 a Co-operative are also the persons who own the
18 capital which finances the Co-operative's business.
19 The Co-operative can thus reward its suppliers of
20 capital for risking this capital by paying patronage
21 dividends. A patronage dividend when paid by a Co-
22 operative is not a price rebate and it is a mistake
23 to treat it as such. The true nature of patronage
24 dividends was well summed by Professor McIvor when
25 he stated:-(2)

26 "Nor does the view that co-operatives' net
27 surplus is not profit find much support

28
29 (2) Recent Growth in Canadian Co-operatives, R.
30 Craig McIvor, Canadian Tax Foundation, 1962.



outside the movement itself. As a recent careful study has stated this matter, it is rather that 'co-operatives are organized to increase the gain of their members, and to the extent that they do, they have profits. A rebate is only such if paid to a person whose interest is adverse to that of the business which pays it.'¹⁴ It is further noted that 'the source of the patron-members' real gain is the transactions of their associations with others whose interests are adverse to theirs. Their interests, like those of the stockholders of an ordinary corporation, are furthered by the operations of a separate and distinct business entity.'¹⁵

An investor-owned company cannot reward its suppliers of capital by paying patronage dividends. It has to pay dividends on its shares, because only in the most exceptional cases do its customers and shareholders constitute identical groups. Were both patronage dividends and dividends paid on share capital allowed as deductions, equity would, of course, be achieved but in an era when Government is seeking new and added sources of revenue to reduce its deficits, it is extremely unlikely that

14. See Robert T. Patterson, "The Tax Exemptions of Co-operatives" (New York: University Publishers), 1961, p. 71.

15. Ibid, p. 82.



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1 this reform will be introduced in the foreseeable
2 future. The logical, and the only feasible way of
3 restoring equity, is to disallow the deductibility
4 of patronage dividends.

5 28. The impact of tax concessions conferred upon Co-
6 operatives falls heaviest on their competitors in
7 the distributing and marketing sectors of the eco-
8 nomy. It is in the retailing and wholesaling of
9 consumer goods' and the marketing of farm products
10 that Co-operatives have recently shown their great-
11 est strength. In the case of Co-operative business
12 originating on the retail side, as compared to the
13 marketing function, the trend has been for activity
14 to extend not only laterally into diverse lines such
15 as lumber, hardware and gasoline but also in depth
16 through wholesaling into manufacturing and primary
17 production. Co-operatives are now firmly entrenched
18 in such basic manufacturing and producing functions
19 as oil refining, flour milling, chemical manufactur-
20 ing, etc. Every such extension ordinarily results
21 in the elimination or exclusion of a profit motivated
22 business and consequently further erosion of the
23 tax base occurs.

24 CONCLUSION

25 29. There are a variety of compelling reasons for the
26 removal of Co-operative tax advantage at this
27 time:-

28 *Every dollar of tax which Co-operatives are
29 forgiven is a dollar which is piled on the
30 back of ordinary business. Every ordinary



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1 company doing business in this country has its
2 tax bill increased to compensate for the
3 "under-contribution" of Co-operatives. The
4 gravity of the situation is intensified because
5 of the coincidental fact that Co-operatives
6 are largely concentrated in the marketing and
7 distributive industries. Most people agree
8 that the real prosperity of our country depends
9 upon the results turned in by our manufacturing
10 and processing industries. Any transfer of
11 part of the taxation burden from Co-operatives
12 to ordinary business, also results in the trans-
13 fer of a penalty to the wealth-creating sector
14 of our economy. It is difficult to visualize
15 a more unfortunate by-product of a situation
16 which is brought about by taxation inequity.

17 *The tax treatment which Co-operatives enjoy
18 is tantamount to a subsidy of Co-operatives
19 (subsidy can be just as effectively granted
20 by failure to collect tax as by a payment of
21 cash). At a time when the Government is des-
22 perately searching for new sources of revenue
23 and facing a deficit of some \$3/4 billion, we
24 can surely ill-afford to subsidize an ex-
25 tremely prosperous sector of the economy.
26 Any section of business which in the five year
27 period 1956-1961 can increase its volume of
28 business by 35% from approximately \$1.1
29 billion certainly does not seem to be in need
30 of special tax treatment.



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1 *A gross unfairness is being done to businesses
2 in direct competition with Co-operatives --
3 a situation in which many of those we represent
4 find themselves. Whenever one of these tax-
5 paying businesses is forced to give up the
6 unequal struggle, as more and more of them are
7 doing, there is an immediate further loss to
8 the National Treasury.

9 *Co-operatives derive equally as much benefit
10 from the Government services paid for by tax
11 revenues as do ordinary companies. As a
12 matter of simple justice, they should pay their
13 equal share of the cost of these services. Co-
14 operatives raise no objection to paying local
15 property and business taxes or provincial sales
16 taxes. Their obligations at the more costly
17 Federal level are equally as urgent. If we
18 are to have a tax system with integrity, then
19 the tax burden must be shared by all --
20 Co-operatives surely should not object to
21 carrying their part.

22 *Tax incentives to stimulate depressed
23 geographical areas and speed up production
24 of Canadian goods may be necessary or desir-
25 able. We believe that comparable or even
26 greater incentives to ordinary business can
27 be achieved by the equitable taxation of Co-
28 operatives. The benefits would be twofold.
29 At the monetary level, the tax revenues re-
30 ceived from corporations organized as Co-opera-



1 tives would be substantial and would contribute
2 towards a balanced budget. On a psychological
3 basis, the taxpayers of Canada would have the
4 satisfaction of knowing that, at last, the
5 heavy tax burden is equally distributed and
6 that our taxing statutes were unquestionably
7 founded on the principles of equity and
8 ability to pay.

9 RECOMMENDATIONS

10 30. Current Income Tax rates imposed on business and
11 individuals are high. Retailers accept these high
12 rates in the knowledge that they are for the ultimate
13 benefit of the country. They would face
14 their burdensome tax load with much better grace
15 if they knew that it was being applied to every
16 sector of the economy. We, therefore, respectfully
17 recommend:-

18 In respect of businesses organized as Co-operatives

- 19 (1) That the key recommendations of the 1945
20 Royal Commission on Co-operative Taxation
21 (to the effect that corporations and Co-operatives
22 should both be taxed on the same basis)
23 be implemented in a manner which results in
24 both Co-operatives and ordinary companies
25 with similar profits paying similar amounts
26 of tax.

27 So long as corporate taxation is based on
28 the present general scheme of collection,
29 it is requested that the deduction of patronage
30 dividends paid by Co-operatives and



ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 and ordinary corporations be disall
2 the calculation of net income.

3 (ii) That patronage dividends and shareholder
4 dividends, in the hands of recipients, be
5 accorded the same treatment for the pur-
6 poses of Income Taxation.

7 (iii) That the three-year tax exemption accorded
8 new Co-operatives be removed.

9 All of which is respectfully submitted.
10

11 RETAIL MERCHANTS ASSOCIATION
12 (ALBERTA) INC.

13 WILSON J. LEE, PRESIDENT
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SUBMISSION OF EILEEN MITCHEL THOMAS, Q.C.

TO

ROYAL COMMISSION ON TAXATION

Mr. Gordon L. Bennett, Secretary,
Royal Commission on Taxation,
P.O. Box 466,
OTTAWA, Ontario.

Dear Mr. Bennett:

Submitted for your consideration are the
following two proposals:-

- I. (1) That consideration should be given and recommendations made to give the woman who works and maintains a home a tax exemption for part or all of the money expended by her to engage others to fulfill her normal home duties.
- (2) Money spent by a working woman to replace herself in the home while she works is, in the opinion of many, money "necessarily expended" to earn the income.
- (3) The greatest burden is borne by the working mother.
- (4) At a time when governments are making every effort to encourage those who possess skills to train or retain in order to go back into industry or business, no encouragement is given to induce the mother of children to take such steps.
- (5) The greatest burden of all falls on



1 the widows, deserted, divorced or separated
2 wives and mothers, whose income is the
3 sole source of livelihood for herself and her
4 family and who is compelled to make
5 provision for the care of her family while
6 she is at work.

7 11. (1) In view of the increasing problem of
8 unemployment in the unskilled labour field,
9 consideration might be given and recommend-
10 ations made to encourage employment of these
11 people as handymen, gardeners, chauffeurs
12 and domestics, by allowing as an exemption
13 from taxable income, part or all of the
14 monies spent to so employ such a person,
15 provided, however, the employment was for
16 a period, say at least nine months per
17 year, and at a rate which would bring the
18 person so employed into an income tax
19 reporting group.

20 (2) The money to maintain this group of
21 unskilled labour must come from public funds
22 somehow, either Unemployment Insurance or
23 direct Municipal Welfare and such inducement
24 to the employer would surely encourage the
25 better and more continuous employment of
26 such persons and would bring certain tax
27 income in that some of these persons (depend-
28 ing on their status) would, in turn, become
29 taxable.

Respectfully submitted,

(signed) Eileen M. Thomas.

